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APPAREL VALUE CHAIN ASSESSMENT

SUPPLEMENT FOCUSING ON TURKEY

FINAL

Sunday, September 04, 2011

This publication was produced for review by the United States Agency for International Development. It was prepared by Deloitte Consulting LLP.

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USAID ECONOMIC PROSPERITY INITIATIVE (EPI)

CONTRACT NUMBER: AID-114-C-10-00004

DELOITTE CONSULTING LLP

USAID/CAUCASUS

SUNDAY, SEPTEMBER 04, 2011

DATA

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Name of Component: Non-Agriculture Sectors

Practice Area: Apparel

Key Words: apparel, Turkey, Georgia, value chain, costs,

ABSTRACT

The supplement to the Apparel Value Chain Assessment was conducted by Deloitte Turkey consultant, Selen Poyraz, in February and March 2011. The purpose of the supplement was to build on the existing Apparel Value Chain Assessment by providing information on, and a comparison with, Turkey's apparel industry.

ABBREVIATIONS

CEO	Chief Executive Office
CIS	Commonwealth of Independent States
EIU	Economist Intelligence Unit
EU	European Union
FDI	Foreign Direct Investment
GAFTA	Greater Arab Free Trade Agreement
GDP	Gross Domestic Product
GSP	Generalized System of Preferences
GSP+	Generalized System of Preferences (plus)
GTIP	Gumruk Tarife İstatistik Pozisyonu
IFC	International Finance Corporation
IMF	International Monetary Fund
IT	Information Technology
ITC	International Trade Center
Kwh	Kilowatt hours
OBM	Original Brand Manufacturing
ODM	Original Design Manufacturing
OEM	Original Equipment Manufacturing
QIZ	Qualifying Industrial Zones
TL	Turkish Lira
UK	United Kingdom
U.S.	United States of America
USD	United States Dollar
VAT	Value Added Tax

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I. EXECUTIVE SUMMARY

The apparel manufacturing industry has become increasingly competitive as more countries enter the global value chain. Especially, with the increase in labor costs, more brands have begun to look at outsourcing some of their production to more cost competitive markets, while keeping their focus on value added activities, such as developing designs and creating brands. While some production has moved to more cost competitive markets and productivity levels have increased, speed and short lead times have become the norm.

Georgia, with its lower labor costs (compared to Turkey), duty free trade potential with large consumer markets such as Russia and the EU (due to GSP+), lower tariffs to the U.S. (due to GSP), and competitive tax rates, has the potential to become an apparel manufacturing and export base. However, the country could invest in strengthening its capabilities in several areas, such as increasing productivity levels, enhancing labor skills, as well as offering benefits (e.g. incentive programs, granting of land at no cost, etc.) in order to compete with countries from Eastern Europe, North Africa, and Asia, to attract potential investors.

While the country can position itself as an apparel manufacturing destination with improvements in these areas, the development of the textile industry in Georgia, at least for the medium term, seems more difficult as the share of labor is lower in textile production, investment requirements are higher, and more advanced technology is required. However, apart from apparel manufacturing, cutting and sewing of home textiles (i.e. curtains, sheets, duvet covers, etc.) can also be considered as a potential sub-sector to focus on.

Instead of focusing on the development of the apparel industry solely with Georgia's own resources domestically, strategic collaboration with countries such as Turkey could enable faster development of the industry. This is especially important as currently there are no supplies, i.e. textiles, zip, buttons, etc., in Georgia and all input materials are imported from Turkey. However, in order to attract foreign direct investors from Turkey, Georgia needs to offer some additional benefits. Within the scope of this study, interviews with several Turkish actors in the apparel business were conducted, from contract manufacturers to original design manufacturers and from branded apparel manufacturers to retail operators to identify critical decision factors to consider foreign direct investments.

Labor costs, labor availability and productivity/quality are among the most critical factors. Georgia has lower labor costs compared to Turkey; however, it is critical to look at labor costs as "total cost per minute of manufacturing" as this metric takes productivity and overheads into consideration. Currently, Georgia has lower labor productivity and skills in apparel manufacturing compared to countries such as Turkey. It may be critical to raise awareness of apparel manufacturers in Georgia on the key industry performance metrics, standards, and terminology of developed economies such as the EU. This awareness can enable apparel companies to compare and benchmark themselves with developed economies as well as use this information in meetings with potential buyers.

Apart from labor cost and quality, one of the most frequently mentioned requirements by all potential investors is the potential of duty free access to large consumer markets such as the U.S. and Russia from Georgia. As Georgia's domestic apparel demand is smaller compared to many cities/regions in Turkey, Turkish investors could consider investment in Georgia given that they can use the country as an export base to export to large consumer markets. Georgia enables duty free trade in apparel with the EU based on GSP+. However, Turkish companies can already trade duty free with EU from Turkey. Thus, Turkish investors are more interested in trade agreements with Russia and the U.S. In fact, some Turkish manufacturers have already invested in countries such as Egypt and Jordan to overcome barriers of entry into the U.S. market. However, Russia is still one of the key markets to which Turkish investors would like to export, but the customs duties are currently significant, limiting Turkey's export capacity. If Georgia continues to enable duty free trade with CIS countries (more specifically with Russia) and communicates this to the potential investors, the attractiveness of the country as an FDI destination will be stronger in the eyes of the Turkish investors.

Another critical factor for Turkish investors is the direct incentives the Georgian government can provide to potential investors, e.g. government granting real estate at no cost, support for financing of the investment, or simply direct incentives for exports. After the recent developments in Northern Africa, Turkish investors have become more cautious in their foreign investments, thus the companies may need additional support to consider FDI. Investors in Georgia can also benefit from special preferences, such as buying real estate at low cost, or even no cost, depending on the size of investment, place of investment, and number of people to be employed. However, these are unknown to the potential investors at the moment. If criteria to benefit from these advantages are communicated and if more investors can benefit from such advantages, Georgia will become a more attractive place to invest.

Georgia is still unknown to many Turkish companies in terms of political and economic stability levels, ease of doing business, and attitude towards foreign investors. Only those companies who own a brand and operate apparel retail shop(s) in Georgia have certain knowledge about the Georgian market. An awareness campaign would create positive knowledge about the country's economic and political stability among potential investors.

A lack of input providers has a negative impact on the apparel sector, making smaller, more sophisticated product lines more expensive. However, the disadvantages could be overcome in production of large scale basic items because companies can more efficiently manage the supply and logistics of the required inputs from Turkey (for mass production). The development of the apparel industry would ultimately have a positive impact on the development of input providers, as these providers can flourish when there is sufficient demand in Georgia.

The branded manufacturers do not seem to be a direct target for Georgia in terms of attracting FDI (setting up a production facility). These companies either do the manufacturing themselves or outsource manufacturing. However, as their production size is still limited compared to many European brands, it would not be feasible for them to consider FDI. However, these brands may be interested in outsourcing manufacturing of some of the items to Georgia (to possible local contract manufacturers in the country), as these companies procure finished goods domestically and in some cases internationally. Providing design services could be a significant differentiator for Georgia, as this is something desired by the branded manufacturers and retailers. Furthermore, investing in expanding design capabilities can enable Georgia to move up the value chain and keep more value added activities in the country, rather than solely focusing on cutting/sewing. Furthermore, training professionals such as visual merchandisers, constructors, etc. can also enable Georgian companies to provide more value added services. Thus, the main target to attract FDI in Georgia could be Turkish contract manufacturers/original equipment manufacturers/original design manufacturers who manufacture for global brands. Once these companies set up manufacturing facilities in Georgia, brand owners or retail operators can also start outsourcing some of their production to these companies.

While the impact of lower labor costs is more visible in manufacturing woven products (as these products require more sophisticated labor skills and take longer to produce), Georgia may need to start with knit items to offset the impact of lower labor skills and quality issues until the labor skills are upgraded. Production of basic clothes, such as t-shirts, requires less sophisticated labor skills and thus Georgia can start by manufacturing these. However, the competition is higher in this category and there are many countries such as Egypt and China, among others, that also have competitive labor costs. As a result, in order to create a sustainable advantage, Georgia could focus on upgrading its labor skills immediately to manufacture fashion items and increasing productivity levels to manufacture with shorter lead times.

Another opportunity is development of the free trade zones in Georgia with an apparel focus. Currently, there is a free industrial zone in Poti (Western Georgia), where investors can benefit from tax exemption i.e. income tax, property tax, VAT withholding as well as more simplified administration procedures. Development of these zones into apparel manufacturing sites could help Georgia to position these locations as an export base in basic items to the U.S. and fashion items to Russia.

Georgia should develop a clear value proposition based on the key criteria investors look for in their foreign investments. Active promotion/communication of the benefits Georgia has to offer to the potential investors as well as creating a platform to answer the questions and concerns of the potential investors with support from the Georgian National Investment Agency could also have a positive impact on investors.

Apart from this, a country-wide apparel industry strategy could also be developed to define the targets over the next 5-10 years with regard to the apparel sector (i.e. does the country want to become the top preferred destination for potential buyers, will the country differentiate itself with design capabilities, will the country establish global brands, etc.). Based on this strategy, focus points for development can be determined and investments can be made more effectively.

II. APPENDICES

A. BACKGROUND

B. LIST OF COMPANIES INTERVIEWED

A. BACKGROUND

FACTORS REQUIRED TO ENCOURAGE GREATER TURKISH INVESTMENT IN GEORGIA-BASED APPAREL PRODUCTION

Based on initial interviews with potential Turkish investors in the apparel industry, several critical decision factors were identified to enable consideration of Georgia as a potential investment destination.

The most frequently mentioned factors were competitive labor costs, availability of a young labor force, export potential to large consumer markets (specially to Russia and the CIS region as well as the U.S.), and direct incentives (such as government granting land at no cost, direct incentives on exports made, support for financing investments, etc.).

List of all criteria that were mentioned during the interviews are as follows (with no specific order of importance):

- Labor costs in apparel
- Availability of labor (percentage of unemployed young population)
- Market potential (domestic and export potential to key consumer markets)
- Political and economic stability and risks in the country
- Government approach towards foreign companies
- Safety
- Level of bureaucracy/red tape
- Tax incentives available
- Direct incentives (i.e. Government granting the real estate at no cost, providing credit for some part of the investment made, direct incentives for exports made)
- Availability of other investment opportunities (apart from apparel) in the country (as most large potential investors also have other business lines such as construction)
- Logistics and communications infrastructure
- Proximity and accessibility from Turkey (number of flights)

EVALUATION OF GEORGIA'S POSITION ON CRITICAL DECISIVE FACTORS

ECONOMIC STABILITY

After GDP recorded growth levels of 9% and above during 2006 and 2007, the GDP growth slowed in 2008 and the economy shrank by 3.9 % in 2009. In 2009, the size of the economy was USD 10.7 billion (the Turkish economy was USD 618 billion in 2009). According to the

EIU's estimations, real GDP expanded by 5.3% in 2010 and is expected to continue to grow by more than 4% in the coming years.

GDP Growth	2006	2007	2008	2009	2010E	2011F	2012F
Real GDP Growth (%)	9.4	12.2	2.3	-3.9	5.3	4.1	5.2

Source: Economist Intelligence Unit

GOVERNMENT'S APPROACH TOWARDS FOREIGN COMPANIES

The foreign direct investment inflows to Georgia increased and reached a peak level at USD 1.7 billion in 2007. However, FDI flows started decreasing with the global recession.

FDI Flows (USD Million)	1995-2005 (Annual Average)	2006	2007	2008	2009
Georgia Inward FDI Flows	212	1170	1750	1564	764

Source: World Investment Report (2010)

According to preliminary data from the IMF, FDI inflows totaled USD 271 million in the first six months of 2010, lower than USD 293 million recorded in the same period in 2009. The Netherlands was the most important investor in Georgia, followed by the U.S. and Japan during this period.[1]

Currently there are some international players such as Heidelberg cement, Knauf in construction materials, Marriott, Sheraton and the Radisson SAS in the tourism sector (Intercontinental, Kempinski, and Hilton are in the process of constructing their facilities). Furthermore, the share of foreign capital (UK, Germany, France, Greece, Turkey, Azerbaijan, Kazakhstan, and Russia) in Georgian banks is approximately 77.4%. The existence of foreign companies in Georgia is an indication of the positive investment climate.

In fact, most of the interviewed companies would like to know what kind of foreign companies have currently invested in Georgia.

LEVEL OF BUREAUCRACY/RED TAPE

According to the IFC and World Bank's "Doing Business Report" in 2011, Georgia ranked 12th among 183 countries in the rankings on "Ease of Doing Business". Georgia is also ranked among the top 10 economies that made the largest development in making its regulatory environment more favorable to business.

Although these facts are currently unknown to Turkish investors, they have positive impacts on the investors' perception of Georgia when explained. However, the interviewed companies also would like to know which foreign companies currently operate in Georgia. Knowing about the foreign companies' point of view about Georgia will also help to create a positive impression for future investors.

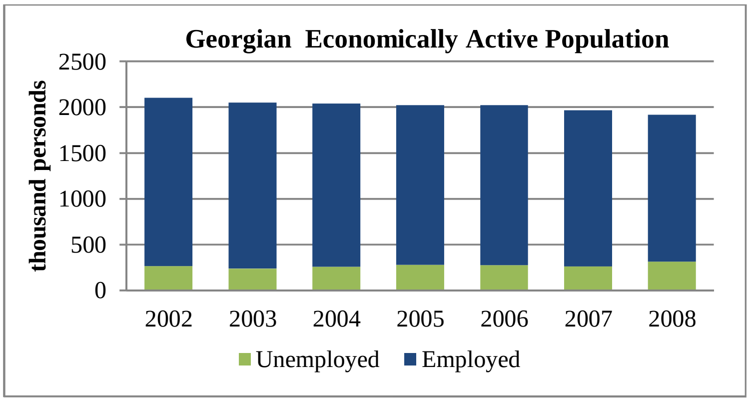
[1] Economist Intelligence Unit, Georgia Country Report

GEORGIA		Eastern Europe & Central Asia		GNI per capita (US$)	2,530
Ease of doing business (rank)	12	Lower middle income		Population (m)	4.3
Starting a business (rank)	8	✔ **Getting credit** (rank)	15	**Trading across borders** (rank)	35
Procedures (number)	3	Strength of legal rights index (0-10)	7	Documents to export (number)	4
Time (days)	3	Depth of credit information index (0-6)	6	Time to export (days)	10
Cost (% of income per capita)	5.0	Public registry coverage (% of adults)	0.0	Cost to export (US$ per container)	1,329
Minimum capital (% of income per capita)	0.0	Private bureau coverage (% of adults)	16.4	Documents to import (number)	4
				Time to import (days)	13
Dealing with construction permits (rank)	7	✔ **Protecting investors** (rank)	20	Cost to import (US$ per container)	1,316
Procedures (number)	10	Extent of disclosure index (0-10)	8		
Time (days)	98	Extent of director liability index (0-10)	6	✔ **Enforcing contracts** (rank)	41
Cost (% of income per capita)	23.2	Ease of shareholder suits index (0-10)	6	Procedures (number)	36
		Strength of investor protection index (0-10)	6.7	Time (days)	285
Registering property (rank)	2			Cost (% of claim)	29.9
Procedures (number)	1	**Paying taxes** (rank)	61		
Time (days)	2	Payments (number per year)	18	✔ **Closing a business** (rank)	105
Cost (% of property value)	0.1	Time (hours per year)	387	Time (years)	3.3
		Total tax rate (% of profit)	15.3	Cost (% of estate)	4
				Recovery rate (cents on the dollar)	25.1

Source: Doing Business Report, IFC and World Bank

AVAILABILITY OF LABOR

While Georgia's total population was 4.44 million in 2010, the active population was estimated to be around 2 million, with 16.5% (315,000 people) unemployment in 2008.

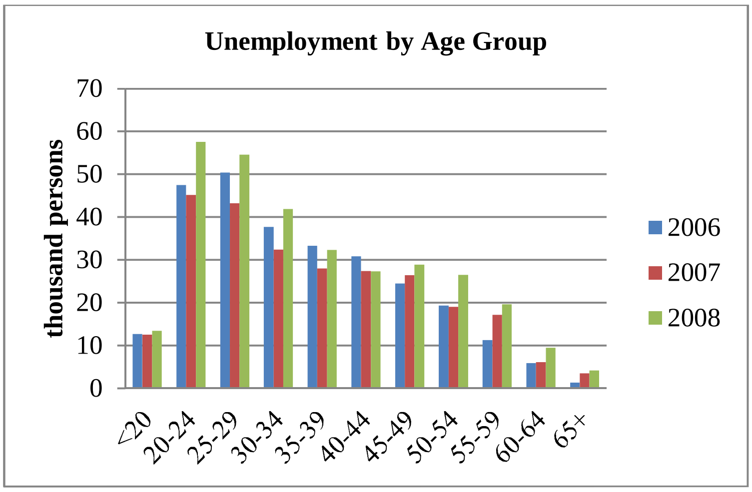


Source: Geostat

As a labor intensive industry, apparel companies are in need of a young labor force. Specifically, some apparel companies indicated that if they make investments in Georgia, they would consider production with 2,000 – 3,000 employees. The existence of a young labor force is one of the most important decisive factors.

In Georgia, 27.5% of the unemployed population (86,625 people) is aged between 20 and 34. There is a high percentage of youth labor availability, especially in the Guria region of Georgia.

Work ethics of the labor force is also considered an important factor to consider for potential investors. Another factor is the maximum number of hours per week employees work as this is critical in apparel manufacturing. Some companies indicated that the workers worked 40 hours / week in Bulgaria compared to 45 hours / week in Turkey, which was a disadvantage.



Source: Geostat

MARKET POTENTIAL (DOMESTIC AND EXPORT POTENTIAL TO KEY CONSUMER MARKETS)

Due to Georgia's small population, the domestic demand for apparel products was found to be limited for potential investors to consider investment just to supply the Georgian local market. The apparel demand is still relatively small when nearby markets are also taken into account:

Countries (USD thousands)	Imports (2009)	Trade Balance (2009)
Georgia	158.204	-132.643
Ukraine	No deficit	
Azerbaijan	24.412	-22.352
Armenia	47.233	-39.671
TOTAL	**229.849**	**-194.666**

Source: ITC Trademap. The products with GTIP codes 61 (Articles of apparel, accessories, knit or crochet) and 62 (Articles of apparel, accessories, not knit or crochet) are included in the above table.

Thus, for most Turkish companies it is critical to use Georgia as an export base to have access to large consumer markets such as Russia, the U.S., and EU. In fact, based on the value of imported apparel products, the world's largest apparel importer is the U.S. followed by many EU countries and Russia.

Worlds Top Importers of Apparel Products (USD thousands)	Imported value in 2006	Imported value in 2007	Imported value in 2008	Imported value in 2009
United States of America	76.880.504	78.920.208	76.363.556	66.795.356
Germany	25.746.554	28.001.584	30.504.998	30.965.830
Japan	22.428.422	22.597.549	24.216.340	24.069.826
United Kingdom	21.232.956	23.619.492	23.427.436	20.765.953
France	17.580.047	19.863.544	22.024.363	19.789.446
Italy	13.389.575	15.096.122	16.569.647	14.769.797
Hong Kong, China	17.730.020	18.136.716	17.563.369	14.706.372
Spain	10.565.894	12.805.467	14.830.428	12.618.613
Belgium	7.746.813	8.597.036	9.737.187	8.381.598
Netherlands	6.709.239	7.468.432	8.426.853	8.011.177
Canada	6.155.914	6.908.827	7.450.327	6.858.108
Switzerland	4.304.406	4.793.855	5.361.205	4.860.236
Austria	4.204.690	4.871.789	5.341.989	4.721.370
Denmark	3.576.530	4.197.726	4.468.269	3.753.876
Australia	3.001.070	3.379.007	3.901.163	3.714.135
Russian Federation	1.498.604	2.841.282	4.225.362	3.674.312
Republic of Korea	3.493.333	4.084.586	3.993.304	3.161.659
Poland	1.387.221	1.944.758	3.229.319	3.155.661
Sweden	2.797.307	3.250.301	3.493.746	3.047.313
Greece	1.866.488	2.682.922	3.096.664	2.639.333

Source: ITC Trademap. The products with GTIP codes 61 (Articles of apparel, accessories, knit or crochet) and 62 (Articles of apparel, accessories, not knit or crochet) are included in the above table.

For instance, Egypt offers access to the U.S. market as a result of the Qualifying Industrial Zones (QIZ) protocol between Egypt, Israel, and the U.S. This access has positively affected Egyptian textiles and ready-made garment exports to the U.S. in its first four years of operation.[2] In fact, many Turkish investors have invested in Egypt in order to export apparel goods to the U.S. without the customs tariffs.

Georgia has free trade agreements with CIS countries including Russia and Turkey. As the country is qualified for GSP+, no customs duties are applicable for trade between Georgia and the EU and reduced tariff barriers are applicable for trade between the U.S. and Georgia for the trade of apparel products.

Duty free trade opportunities with large consumer markets such as the U.S. and Russia were critical to potential investors interviewed in Turkey. Some Turkish manufacturers have already invested in countries such as Egypt and Jordan to overcome barriers of entry into the U.S. market. However, Russia is one of the key markets to which Turkish investors would like to export and the customs duties are significantly high, limiting Turkey's export capacity. If Georgia continues to enable duty free trade with the CIS countries (most importantly with Russia) and communicate this to the potential investors, Georgia will become more attractive to potential Turkish investors.

LOGISTICS AND COMMUNICATIONS INFRASTRUCTURE

The World Economic Forum's Global Competitiveness Report ranks 139 countries based on various criteria that are critical for competitiveness. Georgia was ranked 62nd among 139

[2] GAFI, Invest in Egypt

countries in terms of overall quality of the infrastructure. While the quality of railroad infrastructure ranks 41st, the quality of roads and port infrastructure needs improvement (ranked 65th and 75th respectively).

Infrastructure	Global Competitiveness Rank / 139 Countries	
	Georgia	Turkey
Quality of Overall Infrastructure	62	40
Quality of Roads	65	46
Quality of Port Infrastructure	75	72
Quality of Railroad Infrastructure	**41**	63
Quality of Air Transport Infrastructure	86	44
Available Airline Seat Kilometers	111	23
Quality of Electricity Supply	**58**	73
Fixed Telephone Lines	84	59
Mobile Telephone Subscriptions	103	86

Source: World Economic Forum, Global Competitiveness Report

The companies indicated that communication infrastructure is also a critical factor.

Georgia has 3 million mobile subscribers (69.6% of total population) and 830,222 land line users (18.9% of total population) as of 2009. The country has three mobile operators, Magticom Ltd, Geocell Ltd, and Mobitel Ltd and their total network coverage is quite high, above 97% of the populated territory of Georgia.[3]

LABOR COSTS

Georgia has highly competitive labor costs, especially when compared to Turkey. Based on meetings with the Georgian companies in apparel, minimum gross wages (including benefits such as meals, transportation, health insurance, and income taxes) for the apparel industry in Georgia are around USD 150/month. The average is around USD 250/month and maximum wage is around USD 400/month in Georgia. Salaries are lower in the Guria region compared to Batumi, Tbilisi, etc. However, these salaries are mainly for sewers/machine operators. Employees with higher competency/qualification such as designers, visual merchandisers, constructors, etc. receive higher salaries.

In Turkey, the cost of an employee receiving minimum wage is around USD 605[4]/month (including taxes, but excluding meals, transportation, etc.). The gap between Turkey and Georgia widens depending on the location in Turkey. Labor in cities such as Istanbul is more expensive compared to most of the cities in Anatolia. This is one of the reasons some

[3] Georgian National Communications Commission – Annual Report 2009

[4] Based on USD 1: TL 1.6. This is the total cost of labor to the employer. The employee receives USD 412 net wages per month.

apparel manufacturers are establishing new facilities or transferring production to cities in Anatolia.

Some Turkish companies indicated that in order for Turkish companies consider investment in Georgia, **the cost of labor must be less than the half of the labor costs in Turkey** to justify for lower productivity and labor skill levels, lack of suppliers, and cost of logistics from Turkey to Georgia. In Egypt for instance, the cost of labor is USD 150 including all expenses and taxes.

DIRECT INCENTIVES

With recent developments in North Africa, Turkish investors have become more cautious with their foreign investments. Thus, direct incentives will have a positive impact on their decisions.

Direct incentives can be in the form of government granting the real estate at no cost to the potential investors, providing credit for some part of the investment to be made, or direct incentives such as giving a certain percentage of the exports back (for instance, in Egypt, exporters gained 8% of the exports they made as incentives. The same incentive was also used in Turkey in the past to increase exports).

Turkish apparel companies have been investing in nearby geographies around Turkey. Some of these destinations are Egypt, Bulgaria, and Jordan. However, especially with the recent developments in North African countries, Turkish investors may take more precautions in the coming years, especially when investing in new countries.

For this reason, Turkish companies may consider technology and know-how transfer alone to the potential investment destination and expect the governments in these destinations to grant real estate at no cost and provide a certain level of credit support for the investments to be made (as in the case of Ethiopia).

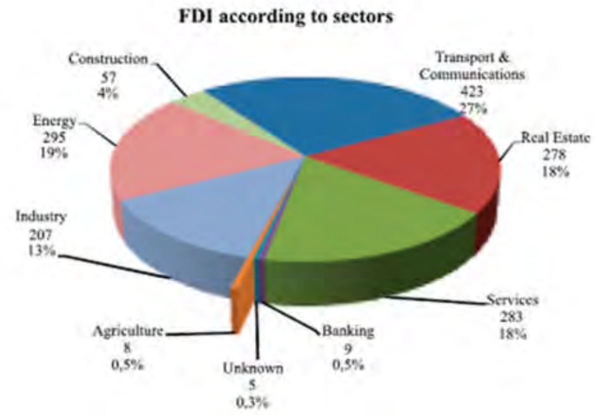
In Turkey, the government grants land at no cost in certain parts of Turkey (Central, Eastern, South Eastern Anatolia, and Middle and Eastern Black sea regions) to attract investments. As a result of this incentive, coupled with lower labor costs in these regions (compared to Istanbul), some Turkish companies have already set up apparel and textile manufacturing facilities in these regions instead of investing abroad, such as Hey Tekstil.[5] However, some other companies do not consider investing in these regions because of the distance to export markets and the supplier base.

In Georgia, investors can also benefit from special preferences such as receiving real estate for a very low cost or granting land even at no cost, based on the size of investment, place of investment, and number of people to be employed. If these opportunities are communicated to the potential investors and more investors can take advantage of them, Georgia will be able to attract more investors.

[5] Hey Tekstil A.S. has textile/apparel manufacturing facilities in Cankiri, Nevsehir, Kastamonu, Batman in Turkey and the CEO Aynur Bektas has indicated that they will focus on investing in Turkey rather than countries abroad.

AVAILABILITY OF NON-APPAREL INVESTMENT OPPORTUNITIES IN THE COUNTRY

Most of the large apparel manufacturing companies that have potential to invest in foreign markets also have other business lines such as construction, energy, etc. Thus, when investing in a country, they assess various investment opportunities besides apparel. If governments offer investment opportunities in areas such as construction, energy, etc. the chances of investing in a country increases.



Source: Georgian National Investment Agency

The Georgian National Investment Agency lists the key sectors of FDI in Georgia as tourism (airport renovations, resort construction, and major hotel projects), agriculture, infrastructure, finance and insurance, transportation and logistics, IT and communications, energy, manufacturing, and real estate development. Transportation is one of the fastest growing industries in Georgia and offers significant investment opportunities. In 2009 alone, 20.2% of all foreign investment was directed to this industry.

If investment needs in tourism, infrastructure, and energy are communicated to potential Turkish investors, Georgia may become a more attractive investment destination.

PROXIMITY AND ACCESSIBILITY FROM TURKEY

Potential investors are also interested in Georgia's accessibility for business travel.

Turkish Airlines and Pegasus Airlines operate between Georgia and Turkey and provide an extensive number of flights per week. Currently, there are 52 one-way flights connecting the two countries each week.

- Turkish Airlines:
  - Istanbul – Batumi: 5 flights/week x 2 (Monday, Wednesday, Friday, Saturday, Sunday)
  - Istanbul – Tbilisi: 14 flights/week x 2
- Pegasus Airlines:
  - Istanbul – Tbilisi: 7 flights/week x 2

Georgia's proximity to Turkey is also an advantage especially because the two countries share a border. There are two border gates between Georgia and Turkey.

Although transportation costs are high to transport goods from Turkey to Georgia by road, the companies indicated that when there is a land border, they could overcome this by transporting goods with their own fleet.

COST ADVANTAGES AND DISADVANTAGES TO TURKISH PRODUCERS IN TRANSFERRING PRODUCTION TO GEORGIA

COMPARISON OF TURKEY AND GEORGIA AS APPAREL PRODUCTION BASE

As a result of the increasing cost of labor in Turkey, coupled with the need to more effectively reach large consumer markets, some apparel manufacturers have been in search of new markets for manufacturing their apparel goods.

Georgia has a potential to position itself as an apparel production base for Turkish investors if current advantages such as low labor costs and duty free access to large consumer markets such as Russia can be continued and communicated to the potential investors while performance on some other criteria such as productivity and skill levels are upgraded. Although labor in the Guria region is considered to be faster and more skilled compared to other regions, overall the productivity of employees could be improved.

At the same time, Georgia's value proposition to potential investors could be enhanced by government support of potential investors through real estate grants and direct incentives.

Below is a high-level comparison of Turkey and Georgia on multiple criteria that have an impact on investors' decisions to invest:

	Turkey	Georgia
Costs		
Labor	Gross minimum wage: USD 605/month[6] (including all taxes and excluding cost of meals, transportation, etc.) The wages in Anatolia are lower than the wages in Istanbul as a result of lower living expenses (but minimum wage is the same)	Gross wages (including benefits such as meals, transportation, health insurance, and taxes): Minimum: USD 150/month. Average is USD 250/month Maximum wage USD 400/month
Electricity	USD 0.146 – 0.154/kwh[7] (incl. all taxes)	USD 0.065/kwh[8] (incl. taxes)
Natural Gas	USD 0.36 – 0.46/m^3 (incl. VAT)[9]	USD 0.43/m^3 (inc. taxes)

[6] Based on USD 1: TL 1.6. This is the total cost of labor to the employer. The employee receives USD 412 net wages per month.

[7] EPDK, TEDAS. Based on USD 1: TL 1.6

[8] Based on GEL 1: USD 0.578

[9] Maximum and minimum prices based on natural gas provider/distributor company websites

Taxes[10]		
	Corporate Tax: 20% Advance Corporate Taxes: 20% (paid quarterly and can be deducted from corporate taxes) Personal Income Taxes: 15-35% Withholding Tax: Dividends distributed to resident individuals, non-resident individuals and non-resident legal entities by a Turkish resident company is subject to 15% (the WHT on dividend can be reduced to 5 or 10% pursuant to applicable double tax treaties) Stamp Duty: Wages (0.66%), Contracts (0.825%) and Lease Contracts (0.165%) Social Security Employer Premium: 21.5% VAT: 18% (VAT is 8% on apparel products. However, if a company buys inputs for apparel production and pays 18% VAT on these inputs, as the finished goods are sold with 8% VAT, the difference paid can be offset against tax and social security liabilities	Corporate Income Tax: 15% Personal Income: 20% (decreasing to 15% by 2014), micro businesses are exempt, small businesses (3-5%) Withholding Tax: Dividends distributed to individuals and non-residents are subject to 5% (decreasing to 0% by 2014) VAT: 18% Property Tax: Corporate and individuals (up to 1%), Land (varies) Import Tax: 0-5-12%
Tax Exemptions and Benefits for Investors		
	No VAT in free trade zones No corporate tax paid on gains from sales of products manufactured in free trade zones (until Turkey is fully admitted in the EU and if not imported into Turkey from the FTZ) No VAT on inputs imported to be used in manufacturing of export goods Special regions (Central, Eastern, South Eastern Anatolia, Middle and Eastern Black sea regions) in Turkey provides certain advantages for apparel manufacturers: Corporate tax reductions (60-80%) depending on the investment size Exemption from social security employer	Companies which manufacturers in Free Trade Zones are exempt from customs duty as well as all other taxes (exempt if they do not import into Georgia) If the business operates for export purposes (in any region) there is customs duty and VAT exemption on imported/exported goods

[10] Georgia Pocket Tax Book

	premium, support for credit, granting of land, VAT and customs duty exemptions	
Free Trade Agreements		
	Turkey has FTAs with 16 countries (Albania, Bosnia and Herzegovina, Chile*, Croatia, EFTA member countries- Iceland, Norway, Switzerland and Lichtenstein, Egypt, Georgia, Israel, Jordan*, Macedonia, Montenegro, Morocco, Palestine, Serbia*, Syria, and Tunisia) Customs Union Agreement between Turkey and the European Union (*) in the process of ratification	Free Trade agreement with Turkey Free Trade agreement with CIS countries, including Russia No customs duty on goods exported to EU as a result of GSP+ Reduced customs duty on goods exported to U.S., Canada, Switzerland and Japan as a result of Generalized System of Preferences (GSP)

AN ANALYSIS ON COSTS

Apparel production is labor intensive with labor representing approximately 20% of total costs. For this reason, lower labor costs are a key factor in investors' decisions to transfer production to Georgia. At USD 605/month[11] (including all taxes but excluding meals and transportation) official minimum wage in Turkey and USD 150/month (including benefits such as meals, transportation, health insurance, and taxes) minimum wage in Georgia, Georgia's wage rates are almost one quarter of what they are in Turkey. However, most companies look at labor costs as "total cost per minute of manufacturing" as this metric takes productivity and overhead into consideration. When total cost per minute of manufacturing is taken into consideration, the actual cost of labor to the manufacturers in Georgia could be higher.

It is critical to raise apparel manufacturers' awareness of the key industry performance metrics, standards, and terminology of developed countries. This can enable the apparel companies to compare and benchmark their productivity and labor skills with those of developed countries.

In Guria, the labor skills are more developed compared to other regions. Furthermore, the labor costs are cheaper than in Batumi, so the Guria region may be an important destination for companies considering investment.

Energy expenses, on the other hand, only represent a small percentage in apparel (5-8%), so even though lower energy costs would have a positive impact, they would not be as impactful as low labor costs. Currently, electricity costs in Turkey [USD 0.146 – 0.154/kwh[12]

[11] Based on USD 1: TL 1.6. This is the total cost of labor to the employer. The employee receives USD 412 net wages per month.

[12] EPDK, TEDAS. Based on USD 1: TL 1.6

(incl. all taxes)] are almost double the electricity costs in Georgia [USD 0.065/kwh[13] (incl. taxes)]. However, natural gas costs are almost equal in both countries.

The raw material costs will be the same in Georgia as in Turkey, as currently all the inputs are supplied from Turkey (as there is no apparel supplier industry i.e. textile, buttons, zippers, etc. in Georgia). Currently, there are only two apparel manufacturers who also produce textiles, but their production volume is very small.

The procurement of the raw materials from Turkey will bring additional transportation costs. Transporting one container (40-foot) of goods from Istanbul to Tbilisi costs approximately EUR 2,150 – 2,500 (USD 3,000 – 3,500) including taxes, by road. The transportation of goods from Tbilisi back to Istanbul would cost about one half of the initial expense: EUR 1,075 – 1,250 (USD 1,500 – 1,750). However, when there is an unexpected need for materials during production, expedited shipments may also be needed, which would increase costs. The companies interviewed indicated that these transportation expenses were high compared to transportation of goods to Egypt. The transportation of the inputs from Turkey will also cause days to be lost, days which are critical especially when there are tight deadlines. Some companies interviewed also indicated that they could transport goods with their own fleet to overcome the high shipping costs from Turkey to Georgia, since the two countries share a land border.

Georgia also has some advantages in terms of taxes. For instance, corporate income tax, personal income taxes (if micro/small business), and withholding taxes on dividends paid are lower than in Turkey.

COMPETITIVE ENVIRONMENT AND ALTERNATIVE DESTINATIONS TO GEORGIA

Some of the Turkish apparel manufacturers have invested in countries near Turkey as a result of the increased cost of labor, taxes, and energy in Turkey, as well as the advantages in other countries. Among these potential destinations for Turkish investors are countries such as Bulgaria, Egypt, Jordan, Morocco, and recently, Ethiopia. Georgia not only will compete with Turkey, but will also need to compete with these countries to attract FDI in the apparel sector.

A brief comparison of these countries in terms of the advantages and disadvantages they possess are presented below:

Country	Turkish Companies	Advantages	Disadvantages
Bulgaria[14]	Şahinler Holding (Apparel) Maser Holding	Part of EU as of 2007 Bulgaria applies a flat tax rate of 10% for corporate profits and personal income tax. Tax incentives include: 0% corporate tax rate in high-unemployment areas;	Maximum number of hours in a normal work week (40 hours excluding overtime) compared to 45

[13] Based on GEL 1: USD 0.578

[14] Invest Bulgaria

	(Apparel) Emboy Tekstil (Yarn)	2-year VAT exemption for imports of equipment for approved investment projects over EUR 5 million, creating at least 50 jobs Tax depreciation for 2 years for computers and new manufacturing equipment; 5% withholding tax on dividends and liquidation quotas (0% for EU tax residents). Workforce: Population: 7.5 million Economically active population: 3.5 million Age group 20-34 among active population: 28.3% (988,300) Unemployment rate: 6.8% (84,200)	hours for Turkey. This is indicated as a disadvantage by some Turkish companies.
Egypt[15]	Taha Holding (Apparel) Şahinler Holding (Apparel) Erak Giyim (apparel) Çalık Holding (Apparel) Aksa Holding (Acrylic) Collin's (Apparel) Polaris Tekstil (Apparel)	Access to large key markets through various multilateral and bilateral trade agreements with the U.S., European, Middle Eastern and African countries: Duty-free access to the U.S. market as a result of the Qualifying Industrial Zones (QIZ) protocol between Egypt, Israel and the U.S. (In order for this to be applicable, 35% needs to be manufactured in a QIZ in Egypt with a 10.5% Israeli content) The Common Market for Eastern and Southern Africa (COMESA) creates a full free-trade area among its 19 member states providing Egypt with duty-free access to a market of more than 400 million consumers Greater Arab Free Trade Agreement (GAFTA) ratified by 22 Arab nations provides for the phasing out of customs and other fees and duties and the elimination of all non-tariff barriers Egypt Turkey Free Trade Agreement provides immediate access to the Turkish market A large, trained, competitively-priced labor	

15 GAFI Invest in Egypt

	Küçük Çalık Group (Home textile)	force: At about 25 million, Egypt's labor pool is the largest in the region. The unemployment rate is 9.4%. (2,378,000) A new national industrial training program is training workers to fill some 500,000 new jobs in manufacturing USD150/month minimum of labor costs including all taxes, expenses, etc.[16] Competitive tax rates: Corporate and personal taxes each top out at only 20% in Egypt. Personal taxes have been cut from 32% to 20%, while corporate taxes have been slashed from 42% to 20%. Maximum length of work is 48 hours per week.	
Jordan	Şahinler Holding (Apparel)	Projects are exempted from income and social services taxes by 25%, 50%, or 75% for a ten year period, depending on the location of the project. Imported fixed assets are 100% exempt from customs duties and taxes. Duty and quota free access to the U.S. market through the Qualifying Industrial Zones (QIZ). Duty free access to EU markets	Population: 6 million Unemployment among workforce (aged 15+): 12.9% Limited labor availability[17]
Ethiopia[18]	Ayka Tekstil (Yarn, textile and apparel) Saygın Tekstil (Textile) Narin Örme	82.4 million population in 2008 33 million active population and 5% unemployment rate (1.6 million people) in 2005 Low labor costs (average is USD 100/month and more skilled labor receives USD 250/month) Land is provided for long term lease (70 years) at affordable costs (agricultural land is leased at USD 8/1,000 m^2 per year; land for industrial purposes within 30	

16 Indicated during interviews with apparel manufacturers.

17 Sahinler Holding indicated that they had to bring labor from Sri Lanka and Bangladesh to work in Jordan as a result of lack of a large labor force in Jordan.

18 www.tuscon.org Türkiye İşadamları ve Sanayicileri Konfederasyonu

	(Textile)	km of the capital is leased at USD 0.3/m^2) Credit is provided during construction stage up to 70% of the investment, to be paid back within 10 year period	
Morocco	Erba Textile	Approximately 11 million labor force, 1 million unemployed population in 2007	

There are also some other destinations where Turkish companies have made investments in fabric, home textile, denim manufacturing, etc. such as Uzbekistan, Republic of Macedonia, Azerbaijan, South Africa, and Turkmenistan.

Ukraine is also considered to be a country with potential to attract FDI in apparel by some Turkish companies as there is a large domestic market and a larger labor force with 46 million people living in in the country. If a Qualifying Industrial Zone agreement is signed between Ukraine and the U.S., foreign companies may be attracted.

Furthermore, light industry (carpet, footwear, textiles, and clothing) in Armenia is also developed (clothing 15%, knitting 20%, and textile processing 65%). The country offers free access to CIS countries and cost effective labor. In fact, carpet production is developing and the footwear industry is well developed.

Countries such as Syria, China, India, Sri Lanka, and Pakistan, on the other hand, are countries with raw material availability (i.e. cotton) and a cultural heritage in dealing with cotton and textiles.

Apart from these countries, there are also some regions in Turkey where certain incentives are given to attract investments to these regions. Georgia will also be competing with the cities in the eastern and Black Sea region of Turkey as these locations provide some advantages in terms of costs compared to the Istanbul region.

POTENTIAL APPAREL PRODUCTS OR PRODUCT GROUPS FOR PRODUCTION IN GEORGIA FOR EXPORT

POSSIBLE PRODUCT GROUPS TO FOCUS ON FOR GEORGIA IN THE APPAREL VALUE CHAIN

When manufacturing costs of yarn, fabric and apparel are considered, apparel is the most labor intensive of all in the value chain, thus labor costs play a significant role in production. Georgia, with its lower labor costs, could create a competitive advantage in apparel production, although Turkish investors have concerns about productivity levels within the current labor force.

Production Cost Breakdown in the Apparel Value Chain

Production Cost Breakdown (%)	Yarn	Fabric	Apparel
Raw Materials + Materials	55-65%	65%	55-65%
Labor	5-8%	12-18%	20%
Energy	5-10%	5-8%	5-8%
Other (transportation, finance, communication, etc.)	17-35%	9-18%	17-20%

Source: Textile, Apparel, Leather and Leather Goods Report, Undersecretary of Foreign Trade, 2004

Considering that the investment costs for machinery are also greater for production of fabric/textiles compared to apparel, Georgia should focus on apparel production initially. Furthermore, as apparel manufacturing is more labor intensive, it will enable the creation of more employment opportunities compared to fabric/textiles or yarn manufacturing. Apart from apparel manufacturing, home/household textiles are also considered as a potential sub-industry on which Georgia can focus. For instance, one of the top home textile manufacturers in Turkey, Zorlu Tekstil, has manufacturing plants in South Africa (curtain manufacturing) and in Macedonia (duvet covers, bed linens, etc.).

In terms of product groups, as woven products require more sophisticated labor skills and take more time to produce, they are more sensitive to labor costs. Thus, some apparel companies that were interviewed indicated that because of lower labor costs, Georgia could be competitive in woven products (especially in more sophisticated products such as coats and jackets). On the other hand, some other companies believe that production of woven products is more risky because of the labor skills required, thus, Georgia could start with manufacturing knit products initially until the labor force is more experienced.

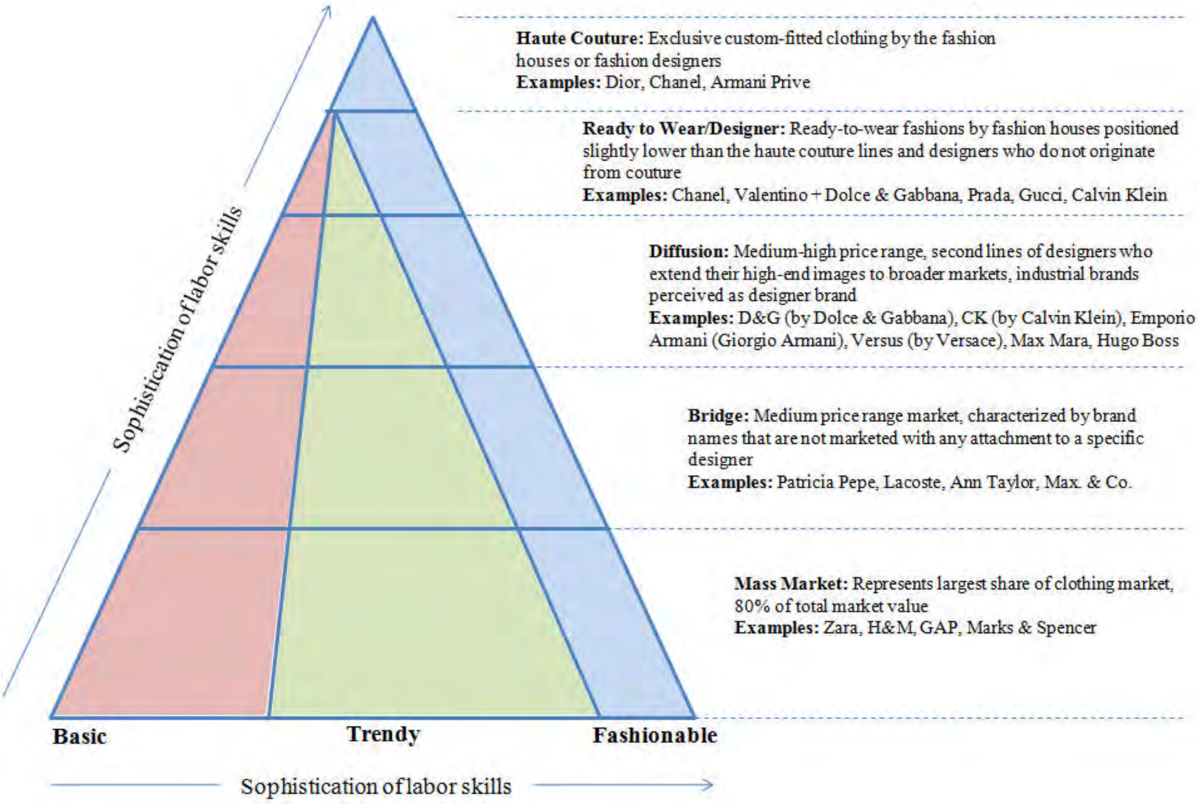
Knit Apparel Products	Woven Apparel Products
Examples are T-shirts, sweatshirts, tricot, knit trousers, sweaters/cardigans, underwear, etc.	Examples are shirts, woven trousers, woven jackets, etc.
Does not require advanced labor skills (Except for products with imprints, embroidery, lace, etc.).	Requires more sophisticated labor skills (Especially in products such as coats, jackets, etc.)
Takes less time to produce per piece	Takes more time to produce per piece

HIGHLIGHT REGIONAL AND GLOBAL TRENDS IN APPAREL PRODUCTION AND OUTSOURCING OF RELEVANCE TO GEORGIA'S PRODUCTION CAPABILITIES

The world apparel market is segmented under mainly five tiers serving different consumers at different price levels. Haute Couture by fashion houses are positioned at the very top. This segment is followed by fashion houses' ready-to-wear lines as well as some designer brands. These designers and fashion houses that extend their high-end images to introduce a new line to penetrate to a broader market form the third segment, "diffusion". Below the "diffusion" segment the "bridge" brands are positioned, which are in the medium segment of the market just above the mass market brands.

The expectations of each segment from their suppliers increase from mass market brands to the ready-to-wear/designer segment. The higher the price segment, the higher the consumers' expectations of quality. As the quality levels increase, the suppliers who manufacture these products on behalf of these brands need more sophisticated labor skills.

Apparel Market Segmentation



Source: Ivey Business Journal, Fashion Conscious: Lessons from the Commoditization of the Fashion Industry; SDA Bocconi, Brand and Identity Management by Fashion Companies

Furthermore, product segmentation is mainly three-fold. Each brand keeps a different percentage of these types of products in their collections depending on their business model, brand characteristics, and price segments. The basic products (i.e. t-shirts, etc.) require lower skills where price (lower labor costs) is the most important criteria in choosing a supplier. As one moves from basic products to trendy and fashionable (these are star products of a collection), the degree of product sophistication increases, requiring more advanced labor skills to manufacture these products.

There are some major trends in the apparel industry that have an impact on the companies that operate in the industry either as a brand or as a supplier of manufacturing contracting services.

INCREASING LABOR COSTS FORCE GLOBAL BRANDS TO CONSIDER NEW DESTINATIONS FOR MANUFACTURING PRODUCTS

With the increased labor costs, most brands began considering outsource manufacturing to lower-cost destinations. "Haute Couture" brands, while still manufacturing their products in their home markets as country of origin is an indication of high quality, the ready-to-wear/designer, diffusion, and bridge brands outsource production of some products to low-cost countries (with quality as one of the most important decision criteria). However, these are largely the basic items such as t-shirts, shirts, etc., while still keeping the production of trendy and fashionable products in the developed markets. Although quality is a critical factor in location selection decisions, know-how leakage is also another concern avoiding outsourcing of trendy and fashionable products to lower-cost countries (Italian brands for instance, outsource manufacturing of trendy and fashionable products mostly to a few countries such as France, Portugal, and to some degree to Greece and Turkey).

Mass market brands, on the other hand, outsource all of their basic products and some of the trendy products to the lowest cost countries. Most of the companies supply their contract manufacturers with inputs necessary for production to ensure consistency and quality of materials.

China has been one of the popular destinations due to its low labor costs for outsourcing especially for the basic products. Some companies had difficulty in establishing control mechanisms in China (i.e. product/quality consistency, after sales support), but the country has been investing in machinery infrastructure to improve its quality levels.

Georgia with its low labor costs may compete with other countries in the region for manufacturing of the basic products. However, further analysis should be conducted to benchmark cost advantages of Georgia with other competing locations apart from Turkey.

THE PRODUCT LIFECYCLES ARE SHORTENING WITH THE GROWTH OF “FAST-FASHION”

Another major trend is the “Zara effect”. The growth of the Spanish brand with the value proposition of “catwalk design at accessible prices” began threatening the whole fashion world. Zara identifies trends in “haute couture” and ready-to-wear designers and brings these products to market in 4 weeks with strong supply chain capabilities.

With the consumer expectations of new products increasing and the threat from Zara, all apparel brands feel the need to differentiate themselves. As a result, brands in almost all segments also began introducing mid-season collections (previously two collections were introduced: spring and fall). This has resulted in collection cycles becoming shorter and product “lead times” gaining importance. Thus, those companies who manufacture for these brands also need to deliver on short “lead times”.

Although Georgia has an advantage compared to China in delivering to the EU with shorter lead times due to its proximity, because of its geographic location, countries such as Bulgaria and Egypt are in closer proximity to these markets. However, physical proximity is only one factor affecting delivery times. Productivity and labor skills are also key factors in achieving shorter lead times. For instance, one of the companies indicated that fast fashion companies request a three week delivery timeframe for production and delivery of 500,000 pieces. Because the productivity levels are currently lower in Georgia, it may be more difficult to achieve this in the short term. However, further analysis should be conducted to benchmark productivity levels of Georgia with other competing locations apart from Turkey.

INNOVATIONS IN NEW FIBERS AND FABRICS WILL REQUIRE INVESTMENT IN NEW MACHINERY AND EQUIPMENT

The fibers as well as the fabric industry, which provide the main inputs for apparel, are continuously developing with new products being introduced to the market. The production of apparel based on these new fabrics may require different machinery and equipment, forcing companies in apparel manufacturing to invest in new machinery (i.e. new weaving machinery) to provide the designs of their customers. Georgia may need to continuously improve its machinery stock in order to be able to develop more advanced products in the mid to longer term.

RISING CONCERNS FOR "FAIR TRADE" AND SUSTAINABILITY WILL CONTINUE

With the rising expectations of consumers towards ethically manufactured products, the brands and retailers will pay more attention to how their products are manufactured, the types of materials used in production, etc. globally. Although the effect of "fair trade" is less visible in the apparel manufacturing industry, this trend may impact the apparel industry more in the coming years. As a result of this trend, the brands/retailers which outsource manufacturing of their products will require their suppliers to comply with specific regulations.

Georgia will also need to comply with the requirements of some of the international brands in order to be able to partner with these companies.

OPPORTUNITIES FOR POTENTIAL GEORGIAN VALUE ADDITION (BRANDS, MARKETS, PRODUCTS, ETC.)

POSSIBILITIES FOR GEORGIA TO POSITION ITSELF IN THE APPAREL VALUE CHAIN

Based on the capabilities and maturity levels, apparel companies can be segmented into four main groups. The first segment is contract manufacturers with limited labor skills who assemble/cut-and-sew fabrics provided to them at the lowest cost.

As factories build up skills such as technical production, procurement, and design, they will begin to increase their value addition in the apparel supply chain. The ultimate stage is the Original Brand Manufacturers, which are companies who sell products under their own brands instead of manufacturing for other brands. These brands may prefer not to keep manufacturing in-house and instead focus on managing the whole supply chain and their brands.

Maturity Levels of Different Apparel Manufacturer Segments

	Contract Manufacturing	Original Equipment Manufacturing (OEM)	Original Design Manufacturing (ODM)	Original Brand Manufacturing (OBM)
Description	Mere assembly or cutting and sewing of fabric provided Customers: OBMs, OEMs, ODMs	Full product manufacturing capabilities based on a given design sample May outsource sewing to	Full product manufacturing capabilities Ability to create and offer ready-made collections Sub-contracting	Usually does not physically manufacture products Manages the supply network Customers: Consumers

		contract manufacturers Customers: OBMs, retailers, branded marketers (i.e. Nike)	sewing to contract manufacturers Customers: Retailers, Branded marketers (i.e. Nike)	and retailers
Skills necessary	Low labor skills Low labor cost	Technical production skills Raw material purchasing skills Financial strength to purchase raw materials	Technical production and input purchasing skills Design staff and skills Financial strength for medium to long term investments	Financial strength for brand building Brand management, retail management, merchandising, marketing, distribution capabilities
Requirements	Minimal initial investments	Supply availability (i.e. fabric, thread/yarn)	Understanding market preferences/needs Access to design world such as fairs, fashion shows, etc.	Understanding consumer preferences/needs Long-term vision Professionals with international management experience

Source: McKinsey Global Institute

Since the investment requirements for machinery, equipment, and labor skills necessary are minimal as a "contract manufacturer", businesses should start as contract manufacturers in Georgia. As these businesses begin working with OEMs, ODMs and OBMs, they will start acquiring new skills and accumulating technical know-how from their partners. This way they can "move up the ladder."

However, it is critical to note that once a country gains a perception as a sole "contract manufacturer" or "OEM" it is difficult to change this perception in the eyes of the consumers/customers (especially to become ODM or a brand manufacturer/owner) as this may require significant investment and time. Thus, if the country wants to establish brands in the long-term, the promotion of the country only as providing low cost labor may impact this negatively. As there are also designers in Georgia (i.e. Laura Gachava) who want to establish their own brands, investing in development of international brand management skills and promotion of strengths in Georgia (i.e. design capabilities) apart from low labor costs becomes critically important.

For instance, Turkey started with contract manufacturing for nearby European countries. As these businesses developed their skills, they began operating as OEMs and ODMs. Currently, most of the apparel manufacturers are operating as OEMs in Turkey, yet there are also some important ODMs and OBMs. With the increase in disposable income levels, the labor cost is increasing and it is becoming difficult for Turkey to compete solely on cost. Thus, some companies have been investing in building brands and the Turkish Government is supporting selected companies to enable them build global brands. Some of them still continue their OEM/ODM business as these generate volume for them to invest in their brands. However, establishing a global brand has become difficult due to the existence of a large number of brands globally. Only a limited number of Turkish ready-to-wear companies have been successful in establishing a regional/global brand.

Branded manufacturers indicate that contract manufacturers who provide cut and sew services could differentiate themselves by providing full production (including procurement of inputs and all stages of production based on samples) and design services. Thus, they believe companies who are original design manufacturers add value to their customers by offering them with design services and collections. If Georgia can invest in further development of design capabilities, tracking of market trends and developments to be used in design by the apparel manufacturers, these will enable the country to keep more value-added activities in the country as well as differentiate itself among the competitors.

Furthermore, a country wide apparel industry strategy should be developed to define the targets for Georgia for the next 5-10 years with regards to the apparel sector (i.e. Does the country want to become the top preferred destination for potential buyers? Will the country differentiate itself with design capabilities? Will the country invest in establishing global brands? etc.). Based on this strategy, focus points for development can be determined, investments can be made more effectively, and promotion of the country could be made in line with the country's long-term vision.

CONSTRAINTS

Although Georgia has an opportunity to become an apparel manufacturing destination, there is strong competition in this industry. Many countries are also focusing on this industry, with some having raw materials and a heritage of textile production, and are also a step further ahead as some of them have already attracted foreign investors.

Thus, in order for Georgia to position itself as an apparel manufacturing destination, there are some constraints that need to be overcome, apart from the requirements needed to attract investors that were explained earlier.

Although most brands supply their contract manufacturers with inputs necessary for production (fabric and accessories) to ensure consistency and quality, the lack of a supplier base (for fabrics and accessories) in Georgia is a constraining factor (especially in the production of smaller-scale, more sophisticated products). Having a supplier base nearby enables flexibility in production, shorter lead times (if a certain item is required unexpectedly during production, it may take time to supply it if it is not produced nearby), and lower costs. Currently, there are only two apparel manufacturers who also produce textiles, but at very small quantities. As the apparel manufacturing develops, the supplier industry may also flourish in Georgia. In fact, there is a market potential in the Caucasus region for inputs; if the input provider industry is developed in Georgia, the Caucasus region could procure apparel inputs for manufacturing from Georgia (Lilo open market is positioned as a trade center for the whole Caucasus region where people from different countries buy textile products).

Labor skills and productivity levels within the current labor force in Georgia may also be a significant constraint. Although in some regions, such as Guria, the labor productivity is higher, in general the productivity levels and labor skills of employees in Georgia are lower than in Turkey. Although Turkish companies usually send expats to oversee production and train labor when they establish a new facility, the lead times will be longer at the beginning. This can limit the country's ability to supply to the fast fashion segment of the industry, at least in the medium term.

Today there are about 20 vocational education centers located in Batumi, Poti, Tbilisi, and Ozurgeti where cutting/sewing (10 month-courses) are being taught. Training programs could be expanded to more employees and programs could be enhanced to include training on European standards, customer expectations, performance metrics, etc.

B. LIST OF COMPANIES INTERVIEWED

Within the scope of this study, interviews with several Turkish actors in the apparel business were conducted, from contract manufacturers to original design manufacturers, from branded apparel manufacturers to retail operators, to identify critical decision factors in considering foreign direct investment. A list of interviewed companies follows:

Companies	Company Overviews
Şahinler Holding (Chairman of the Board, Vice President, Member of the Board, General Manager for the European Freezone Founder and Operating Co.)	• Contract manufacturer, original design manufacturer and branded apparel retailer • The group has operations along the whole value chain, from yarn to textile manufacturing, from apparel manufacturing to wholesale and retail operations. • The group was ranked 3rd among Europe's Largest Textile Companies in 2007. • The group has consolidated revenue of USD 1.4 billion. • In addition to production facilities in Turkey, the group also has production facilities in Egypt, Jordan, and Bulgaria. • ModaVizyon is the group's apparel manufacturing company who offers contract manufacturing and design services to its customers with approximately 3 – 5 million piece annual capacity.
Sun Tekstil (Chairman of the Board)	• Contract manufacturer, original design manufacturer and branded apparel retailer. • The company has textile manufacturing and apparel manufacturing operations. The company while offering contract manufacturing and design services to its customer base, also has established its own brand- Jimmy Key. • The company's revenue was around USD 112 million in 2006 with a manufacturing facility in the Western part of Turkey (İzmir, Torbali). • The company has a production capacity of 500,000 pieces per month. • Some of its customers are H&M, Zara, M&S, Next, Diesel, D&G, Prada, Adidas, Guess, Armani, Benetton, Miroglio, Decathlon.
Mavi Jeans (Director- CEEMEA and Far East)	• Branded apparel retailer with jeans as the core product • The brand belonged to Erak, which is one of Turkey's leading blue jeans manufacturers. Mavi Jeans started as Erak's own brand and later was incorporated as a separate company. • Erak has production facility in Cerkezkoy with a capacity of 400,000 pieces of blue jeans per month and another facility in Istanbul with a capacity of 500,000 pieces per month

	(including jackets, dresses, skirts and cargo pants). • Erak contract manufactures blue jeans for global brands such as Calvin Klein, Escada, Ermenegildo Zegna, Armani, FCUK, Espirit • Mavi Jeans outsources some production to Erak while globally sourcing some others
Devanlay - Eren (Finance Coordinator)	• Branded apparel manufacturer for the Lacoste brand in Turkey, and retailer • The holding has textile and apparel manufacturing operations. The apparel manufacturing operations are based on a joint venture between Devanlay and Eren Tekstil Sanayi ve Ticaret A.Ş. • The joint venture manufactures for Lacoste brand in Corlu, Turkey and the production capacity is 1 million pieces per year. • 300 employees. • The group the company belongs to Eren Holding, which also overseas retail operation for multiple international brands in Turkey, among which is the Lacoste brand as well. • The group started relations with Lacoste through their retail operations and later entered into the apparel manufacturing business.
Orsan Tekstil AŞ (Russia and CIS Countries Supervisor)	• Branded apparel manufacturer and retailer belonging to Orka Group • Orka Group's revenue was TL 160 million in 2010 • Production facility in Giresun (Northern Turkey) with a capacity to manufacture 3,000 shirts, 1,200 pants and 600 suits • 480 employees
Aymarka (General Manager)	• Branded apparel retailer • Brands are Network (women's' collection), Fabrika Altınyıldız (young and dynamic segment), Que, Arzu Kaprol, Altınyıldız Classics (classical men's wear)
Kardem Tekstil (General Manager)	• Kardem Tekstil is a company which is not directly involved in manufacturing. • However, the company designs, procures inputs and identifies and manages contract manufacturers on behalf of their customers (brands)
Apparel Sector Expert	• Industry subject matter expert who has worked in management positions in apparel companies.

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