



UNION OF MANUFACTURERS AND BUSINESSMEN OF ARMENIA

***BUSINESS STRAND OF
“SUPPORT TO ARMENIA – TURKEY
RAPPROCHEMENT”
PROJECT***

POTENTIAL FOR COOPERATION IN
MANUFACTURING SECTOR

Yerevan 2011

TURKEY

- ✘ The country is considered as one of the largest exporters of fabric, garments and stockinet
- ✘ Production of stockinet (knitted fabric) composes 10% of GDP and composes 20% of processing manufacturing

TURKEY



High quality of product is secured with the following

- ✘ Skillful workers
- ✘ Using modern equipment and technologies
- ✘ Quick modification of assortment according to fashion developments

Production of leather clothes and shoes

- ✘ Good quality. Considered the third in the world by quality, after Italy and Spain
- ✘ Genuine leather is mainly used in production of shoes

Export

- ✘ Over 70% of product is exported
- ✘ 10th in the world in export of stockinet (knitted garments)
- ✘ In 2006 the volume of export of Turkey to Russia composed \$ 3.3 billion and mostly composed of manufacturing products.

Challenges of sector

- ✘ Increasing competition with relevantly cheap Chinese and South Asian products
- ✘ Comparative high cost of Turkish products as result of following (according to Union of Turkish Stockinet Producers):
 - high value of Turkish Lira
 - high prices of fuel and energy
 - comparative high labor

Sector entities

- ✘ 2000 – 3000 entities in the field of stockinet
- ✘ Over 35.000 entities in the field of garment production
- ✘ 8000 various size entities in the field of cotton fabric production

ARMENIA

- About 200 registered entities
- Main areas are: Yerevan, Gyumri, Vanadzor and Spitak
- Limited product is exported to Russia, USA and European Countries
- Volume of production is \$ 15 billion (0.75% of total manufacturing production)
- Export composes \$3.72 million, which makes 0.9 % of whole export
- The sector works with imported (mainly from Turkey) raw material

ARMENIA



ARMENIA

- ✘ Despite depreciation of equipment of most of entities, the final product meets requirements of international standards and has similar to Turkish quality
- ✘ The sector is far from functioning from its full capacity
- ✘ The average salary composes \$ 170 – 200

CHALLENGES OF SECTOR

- ✘ Production is based on imported raw material
- ✘ Small local and external market
- ✘ High transportation costs
- ✘ Not easy access to financial means
- ✘ Absence of local brand

BASES FOR COOPERATION

- ✘ The same type of product has lower cost in Armenia
- ✘ Turkish product is imported in Russia with high customs fees, whereas Armenian product is imported with 0% customs charge

POSSIBLE WAYS OF COOPERATION

- ✘ Creation of Joint Ventures
- ✘ Creation of entities with 100% Turkish ownership
- ✘ Production per Turkish order and joint export

COMPARATIVE COST CALCULATION

TYPE OF EXPENSE	ARMENIA	TURKEY	
		Produced in Turkey	Produced in Armenia
Core raw	550	495	495
Supplies	50	45	45
Energy	110	220	110
Depreciation	60	60	60
Transport costs	30	21	60
Payroll	200	600	200
TOTAL	1000	1441	970

COMPARATIVE COST CALCULATION

Product price = cost + commercial overhead

In case of conditional commercial overhead of 15%

Price when produced in Armenia	Price when produced in Turkey
$1000 + 15\% = 1150$	$1441 + 15\% = 1657$

IN CASE OF EXPORT TO RUSSIAN FEDERATION

Exported product price = price + transport cost + customs fee

	If exported from Armenia	If exported from Turkey
Transport cost	50	25
Customs fee	0 %	20 %
Price after customs clearance	$1150+50+0\%=1200$	$(1657+25)+20\%=2018$

TAXES IN ARMENIA AND TURKEY

	Armenia	Turkey
Payments(number)	50	15
Time (hours)	581	223
Profit tax(%)	12,1	16,8
Labor tax and contributions(%)	23,4	24,5
Other taxes(%)	1,1	4,3
Total tax rate (% profit)	40,7	45,5