

International Service Trade: A Case Study

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Conceptual issues in modeling service trade:

- Often knowledge-specific inputs are the only imported goods, and these may not appear in import statistics.
- Most often, firms are highly protective of trade secrets and choose to run service-oriented activities through FDI
- Information technology has changed the cost of remote management of service activities. There are many types of service goods which can and are being traded.
- We typically think of services as non-traded goods, but that may be changing.

A Case Study of Two-Way International Trade in Services: *Woven Legends*

“To some people, the very idea of their rug going to Turkey for repair sounds difficult, time consuming and risky. In reality, it is as simple as wrapping the rug up and calling UPS. When the guy in the brown uniform shows up at your door, he could be just going to the other side of town or, in theory, to Turkey”.

Robert Mann

Denver, Colorado



Robert Manne rug restoration shop in Denver.



Manual repair at the Denver shop.

Woven Legends: History

- An American, George Jevremovic, marries a Turkish woman.
- They start to buy and sell rugs in Turkey and then Philadelphia
- Between 1989 and 1990 starts to form a plan for a rug restoration basis, working with Robert Mann who runs one of the largest rug restoration businesses in the US from a shop in Denver, Colorado
- Original plan involved setting up the operation in Yugoslavia (Macedonia).
- 1991 -- the Aegean Free Trade Zone is created in Izmir, Turkey with 600 acres of land set aside for duty-free import and export.

Rug repair in Turkey

- Prior to 1991 it had been illegal to bring old rugs into Turkey. It is now possible only by posting bonds, or in a Free Trade Zone.
- Previously (possibly still), rug repairs had been done by smuggling rugs in and out of the country. There had been (and still are) many rug repair businesses in Turkey.
- Rug repair businesses in the Free Trade Zone face higher tax liabilities.



Rug restoration in Turkey's Free Trade Zone.

The Rug Restoration Business

- Requirements:
 - informed advisors who can choose the appropriate repair strategy and counsel the client.
 - skilled workforce
 - authentic materials (dyes and wools)
- There is a wide range of rug repair services provided by different firms, differentiated largely on the basis of quality of the materials, workmanship and knowledge.
- Woven Legends compete with firms located in Pakistan which can charge ½ of their rate or less.





Economics of the firm

- A typical Woven Legends job takes between 20 and 30 days, costs \$1,400 to \$2,200, and involves a 12-15 week turnaround.
- Air freight from Denver is \$4 per pound return.
- The firm exploits differences in labor costs. In Turkey, the wage for a good restorer is roughly \$500 per month versus \$2000+ per month in the US.
- Customs procedures in Izmir conform to EU practice.
- Operating in the duty-free zone in requires a Turkish partner.



Hand restoration of an antique carpet in Turkey.



Spinning of custom yarns for restoration work.

Role of specialized inputs:

“Not long ago we got a fax from Turkey from a repair person working on a rug, saying, 'On rug number 78, we recommend a white cotton selvedge which is more traditional for this rug.' Apparently the selvedge had been changed and then damaged. I called the client and told him that our people thought that the original selvedge on the rug was white cotton and it would cost so-and-so to put it back on. The client was grateful that we did that and also because he learned a little bit more about his rug”.

Robert Mann

