Egypt
Country Case Study

Egypt's Textile Sector Weaves into the Global Economy

In a world of increasing competitiveness, Egypt's textile industry is considered to be of paramount importance to the economy, accounting for 5 percent of total GDP and 26.4 percent of industrial production. It employs more than half a million Egyptians and is a crucial foreign exchange earner. In spite of its superior raw materials, Egypt has been unable to exploit its advantageous position to the best of its capabilities. This is creating problems for the down-stream industry. The textile industry is labour intensive, and wages in Egypt are among the most competitive and stable in the region. The industry requires both skilled labor and technologically advanced machinery and production lines. Egypt's cotton is internationally prized and valued for its quality.

Nevertheless, over the last few years, and despite the different local and global economic challenges, Egypt's textile industry moved towards higher value added products instead of exporting raw cotton. The sector produces a wide range of fibre-based products, including raw cotton, yarns, fabrics, garments and readymade textiles. International brands such as Gap, Guy Laroche, Pierre Cardin and Tommy Hilfiger are made in Egypt under license for the highly protected domestic market.

Egypt has the only fully vertically integrated textiles industry in the region, with the entire production process—from the cultivation of cotton to the production of yarns, fabrics, and ready-made garments—carried out domestically but needs to establish textile clusters to enable the firms operate optimally. The major players in the Egyptian textile value chain are the growers (cotton farmers), processors (ginning factories, weavers/clothmakers, and ready-made textile producers), and sellers (exporters and retailers). Linkages between the upstream cotton suppliers and downstream textile sellers are important determinants of the sector's long-term competitiveness.

Over the last 15 years, a growing number of efficient private companies have come to dominate garmenting capacity. Most spinning, weaving, and hemming capacity is owned by medium- to large-scale public-sector companies, although the private sector is slowly entering the segment. Dyeing and finishing are the weakest points in the value chain, with the least amount of investments. Public-sector dominance of spinning and weaving has limited producers' responsiveness to consumer preferences and burdened the sector with over employment, inferior technology, operational inefficiencies, and low levels of capital utilization.

As a result, some yarns and finished fabrics are imported from India, Turkey, Turkmenistan, Bangladesh, Pakistan, and other countries to feed the ready-made garment industry. Some finished fabrics are made of Egyptian cotton, processed abroad, and re-exported to Egypt. The government is looking to attract new private investments into upstream segments to sharpen Egypt's competitiveness in the global market.Overall,government investment in the sector increased by nearly 300% from US$89 million to US$351 million between 1995 and 2007.

Before 2005,the textile sector faced a downturn due to the successive tariff reduction on imported ready-made garments, downsizing of public-sector firms, the effects of privatization, and the government's neglect of public spinning and weaving companies. The end of the quota system in January 2005, following the end of the Multifibre Arrangement, had severe consequences for Egypt's ability to penetrate export markets, as the country was brought into direct competition with China, India, Pakistan, Bangladesh, Indonesia, and Turkey. The Qualifying Industrial Zone agreement in 2004 and Euro-Mediterranean Partnership agreement with the European Union in 2005 moderated those effects by allowing Egyptian textile products duty- and quota-free access to these markets conditional on rules of origin. The two markets account for more than three-quarters of Egypt's textile exports.

Strategy Focused on Export Development

The 2008 Industrial Development Strategy, developed by Egypt's Ministry of Industry identified the most important industrial sectors that contribute to manufacturing value added.
The focus of the strategy is closely aligned with the objectives of export development and deepening Egypt's integration into the global economy. Rather than developing a unified strategy for the textile sector, Egypt may benefit strategically by directing investments in fine weaving and dyeing to produce larger quantities of high-quality fabrics for the export market. A structural problem in the spinning and weaving sectors is the high cost of initial investment and the long time for breakeven and return on investment. Many investors are more interested in ready-made garments because the initial cost of investment is lower and the return on investment is usually faster. There are no clear policies or strategies that address increasing local value addition in terms of local content or local processing.

A manufactured export development strategy for Egypt would require measures to enhance Egypt's price-quality mix and the sophistication of the technological structure. The Textiles Development Center at the Ministry of Trade and Industry is taking a number of steps to support interested producers who would like to enter the technical textiles field.

The government aims to boost exports to the European garment market by moving up the quality ladder in garments, vertically integrating the garment production value chain (e.g., use local extra long staple cotton, improve design and patternmaking offering) and defending leadership in low-end garmenting by establishing strong brands at both country and supplier levels. Restructuring the domestic textile industry by privatizing mills and leveraging on low-cost and provided labor in addition to a large domestic supply of high-quality cotton is also on the agenda. For textile commodities, spinning and weaving are the main feeding sectors for the textiles industry. Most spinners export because they produce fine counts, which is an expensive product for the local market, and fabrics from imported yarn mainly target the local market.

Since 2004 the government has initiated a program of fiscal and regulatory reform to reduce corporate and income taxes by 50%, double the available industrial lands using private capital to build infrastructure, attract new industrial investments, target sector-specific foreign direct investment, and step up industrial programs for capacity building and training.
Overall, the major challenge to implement a unified policy for the textiles sector is the overlap and often the contradicting interests amongst key players on the policy level. There is a clear need to create a niche market because competition with other countries such as China and Pakistan is difficult due to the huge differences in input and output costs. Furthermore, the weaving sector does not have the capacity for mass production, unlike other competitors in the global market.

Industrial Capacity Building Supported

The support of the Egyptian government and the European Union triggered a wave of modernization and restructuring in Egypt's textile and spinning industries, with an increasing number of small- and medium-sized companies investing in advanced machinery and equipment to enhance production capacity and quality of output. The EU TVET program to support the restructuring of the Egyptian textile sector, was a 6-year project launched in July 2005. The project implemented a comprehensive policy for the reform of technical and vocational education and training in the industry, building and construction, and tourism sectors. On the national level, an integrated, decentralized system for training delivery was devised to guarantee the provision of the required training services. On the micro level, the project provided direct support to enhance public and private training capacity.