

Challenges Facing Textile Industry in Egypt

“Barrier for Exporting”

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Abstract

The importance of the textile industry in the economy of Egypt is very high. The garments manufacturing sector contributed 3% to GDP, employed about one-third of the industrial labor force and provided annual exports worth around \$2.6bn, accounting for 15% of all non-petroleum exports. **(1)**

One of the impoverished nation's biggest industries. Currently this industry is facing great challenges in its growth rate. The major reasons for these challenges can be the global recession, unfavorable trade policies, internal security concerns, the high cost of production due to increase in the energy costs, different safety issues, etc. Depreciation of Egyptian Pound that significantly raised the cost of imported inputs, rise in inflation rate, and high cost of financing has also affected seriously the growth in the textile industry. As a result, neither the buyers are able to visit frequently Egypt nor are the exporters are able to travel abroad for effectively marketing their products. (Egypt's Qualified Industrial Zone (QIZ) program, allows products manufactured in an Egyptian QIZ to be exported to the US at a tariff rate of zero. The textile and clothing industry has taken the greatest advantage of the program, exporting more than \$800m worth of woven and knitted clothing to the US in 2014. In 2011 over 95% of Egypt's QIZ exports consisted of garments and linens). **(2)** With an in-depth investigation it was found that the Egyptian textile industry can be brought on top winning track if government and others individuals takes serious actions in removing or normalizing the above mentioned. Additionally, the government should provide subsidy to the textile industry, minimize the internal dispute among the exporters, (The US remains the most popular export destination for Egyptian textiles, receiving 53.5% of ready-made garments, followed by the EU, with 31.7%) **(3)**. The country should withdraw the withholding and sales taxes etc. Purchasing new machinery or enhancing the quality of the existing machinery and introducing new technology can also be very useful in increasing the research and development (R and D) related activities that in the modern era are very important for increasing the industrial growth of a country.

Keywords:

Exports Barriers, economic growth, global recession, industrial challenges, market competitions, and production rate.

1. Objectives of the Study:

The general objective of preparing this report is to fulfill the requirement of thesis Program as well as completion the studies in Textile Program through gaining the practical job experience and view the application of theoretical knowledge in the real life. The report focuses on two parts. They are:

1.1. Primary Objective:

The broad project objective is to analyze the garments sector in Egypt and relate the knowledge with the practical experience.

1.2. Secondary Objective:

In order to reach the broad objective, some specific objectives are identified.

1. To know the different aspect of garments industry, its prospects and problems.
2. To show some statistics of RMG industry.
3. To analyze the statistical data related to RMG industry.

2. Limitations of the Study:

In many cases, up to date information was not published. In some cases, access to relevant papers and documents were strictly prohibited. In some other cases, access was denied to procedural matters conducted directly by the top management in the operations of foreign exchange business.

3. Technique of the research (descriptive research)

Research have been conducted using descriptive research technique, investigating the problems form the production facilities themselves & textile companies which are working in Egypt & some of them are exporting their production outside Egypt , the research is done using some of questions included in questionnaire to gather the data in details , the collected data were analyzed using statistical analyzing techniques, then arranged in order to reflect the main points that the industry facing regarding Exporting & challenges which cripple local production in this field.

Data collection and analysis**4. Methodology**

4.1. Sources of Data regarding the completion of this report are collected from both primary and secondary sources.

4.2. Primary Source through direct conversation with the respective officers of the textile companies.

4.3. Secondary Sources:

- Various data source like Expo-Egypt, MTI Egypt, GOEIC, IDA, UNIDO, <http://www.fei.org.eg>, etc.
- Internet browsing through website searching.
- Annual report of the various organizations such as, UNIDO, Federal of Egyptian Industries, Export Promotion Bureau, etc.
- Different published material Such as books and articles.

5. Questionnaire points

1. Capital investment
2. Financial source
3. Loans

Loans problems

Bank rejection Loans

No self-finance

Loss of Trust between Banks & small & medium enterprises

Impossible Terms & conditions from Banks

Other current Loans

4. Production capacity
5. Needs a& raw materials
6. Sources of raw materials (imported or local materials)
7. Production for local market or for exporting / which countries / export problems / obstacles
8. Exports subsidies / government support/ how you can find new export markets
9. What is production problems?
10. Source of energy and power supply/ electricity / gas & cost
11. Number of workers / average of salary for worker
12. Do the company provide training for new workers/ training cost/ level /Internal or external training?
13. Lack of well trained workers
14. Source of Machinery/ high tech machinery
15. The factory producing its own products or working for others
16. Is there internal quality control within the company?
17. Customer satisfaction/ client requirements/ competition

Collecting & analyzing Data:

- Quantitative information
- Qualitative information
- Working with data (Analyzing)
- Presenting Research data

Quantitative information

Numerical or quantitative information is obtained from research methods such as surveys of populations & Factories Managers / Decision Makers / Owners during the practical period of the research **dates and place of collection, methods of measurement, units of measurement) were form April to Dec. 2019, stored in spreadsheet format.**

Qualitative information

Qualitative (non-numerical) information recorded during interviews with human participants, with supporting notes, then transcribed into written form later. Other qualitative information describing and interpreting texts or artefacts also recorded in written form and stored as Word files. This material coded using software programs and in some cases done manually. Visual information recorded as photographic plates, slides, computerized files or hand-drawn diagrams.

Criteria for Factory Visits selection

- SME
- Large Vertically Integrated
- Geographic
- Industrial Zones and Non Industrial
- Export and Domestic Sales Channels

- Free Zone
- Retail and Branding
- Foreign Investment

Introduction

The Industry Structure

The Textile Structure In Egypt

Traditionally the Textile & Clothing T&C sector was responsible for significant job numbers in developed countries, but over the last decades the sector has become the first step towards manufacturing production and employment for many developing countries. While total world employment in T&C hardly changed in recent decades, the distribution of employment changed substantially with the EU and US losing jobs and mainly Asia gaining **(8)**. The textile sector plays a significant and effective role in solving the unemployment problem in Egypt as it provides numerous job opportunities for the Egyptian labor force. The textile industry is considered a labor intensive industry and is related to various complementary industries which either provide it with various raw materials or use its products. According to the governmental statistics, almost one-third of the total Egyptian manufacturing employment is working in the textile industry. **(8)** With a large consumer base, a skilled labor force, a strategic geographic location for trade, and a series of pro-business government efforts to streamline licensing and operations, there are a number of reasons to recommend Egypt as an industrial center. While challenges remain, there are new local and export-focused opportunities for increased investment – particularly with the ongoing construction of the new capital – a continued focus on infrastructure development and a government-supported pivot towards sub-Saharan Africa as a market. **(10)**

Moreover, labor costs are considered a competitive advantage to invest in Egypt, as they are thought to be among the lowest labor costs in the world. According to the survey conducted by Werner International Institution, which includes the main textile producing countries in the world, the hourly costs of the Egyptian worker was less than \$0.82 compared with \$15.78 in the United States, \$18.91 in Germany and \$2.13 in Turkey. It is also lower than those of the workers in other developing countries such as Malaysia, Morocco, Oman, Colombia, and Mexico **(11)**. The textile sector is considered the engine of the Egyptian economic growth, as it represents the third-largest industrial sector after the chemicals and food sectors. Egypt is the largest African and the second largest Mediterranean exporter of textiles and clothing to the USA. It is also one of the main five suppliers of cotton yarn and non-carded cotton for the European Union. **(12)**

The country announced four-year, five-pillar strategy to help transition Egypt into a major regional industrial center and export hub. The strategy sets specific targets to support this, including increasing the annual industrial growth rate to 8%, the industrial contribution to GDP to 21% and non-oil exports by an annual rate of 10% through to 2020. The near completion of an industrial investment map to help Egypt diversify and target investments across industrial sectors, noting the needs and capacities in each governorate. which will help inform the types of employment and training programmers provided, and lead to the integration of factories and decrease of imports. **(12)**

Competitiveness and Future Challenges in textile industry

The Analysis of the competitiveness and challenges facing the industry, its strengths and weaknesses may be done by considering the competitive structure of the industry, the characteristics of its factors of production and the nature of government intervention and support. **(11)**

Competitive Structure

- i. The structure is heavily biased to spinning and weaving production which is state owned. Facilities are almost obsolete, organization over manned and highly inefficient. Quality and delivery of output erratic and inconsistent.
- ii. Private sector participation-predominately in knitting and ready-made garment manufacture-is increasing marked successes in some export markets. The sector has limited impact in world markets due to its small size.
- iii. Local and international competition is intensifying.
- iv. Large local demand for relatively unsophisticated goods. Local market growth is currently very modest.
- v. Multi-lateral (GATT) and bi-lateral (EU) trade agreements will result in increased competition from imported yarns and fabrics; and ultimately ready-made apparel.
- vi. Companies often lack strategic vision, international marketing experience, market information and competent middle management. The organization structures of the majority of the companies tend to be incompatible with the requirements of export activities.
- vii. Limited R&D and effective product development activities.
- viii. Raw material locally available but at relatively high prices, Fig. 2 gives an example of the cotton consumption by local spinning mills. The negative trend is mainly attributed to lower price of imported yarns and, to a lesser extent, increased use of regenerated and synthetic fibers; and lower demand for local fabrics and readymade garments.
- ix. Weak access to international markets through effective marketing channels. **(13)**

Strengths and Weaknesses of the Textile Sector in Egypt

The textile sector is considered the engine of the Egyptian economic growth, as it represents the third-largest industrial sector after the chemicals and food sectors. Egypt is the largest African and the second largest Mediterranean exporter of textiles and clothing to the USA. It is also one of the main five suppliers of cotton yarn and non-carded cotton for the European Union. **(11)**

The Egyptian textile industry has strengths points in terms of rich legacy of textile production, strong multi-fiber raw material base, large and expanding production capacities, very low import intensity, vast pool of skilled workers and technical and managerial personnel, flexible production systems, large and expanding domestic market, dynamic and vibrant entrepreneurship, etc. However, these strengths have been diluted to a great extent due to severe disadvantages suffered by the industry in certain other areas affecting its productivity, quality and cost competitiveness. Such factors are technological obsolescence, structural anomalies, poor productivity of labor and machine, lopsided fiscal policies, multiplicity of taxes and levies, high cost of capital, redundant and outdated controls/regulations, restrictive labor and industrial laws, lack of aggressive marketing, poor perception of Indian products abroad, procedural

problems in exporting, poor infrastructure relating to transport, communication and banking, high power tariff, etc. **(4)**

Strength points

Non-petroleum manufacturing industries contributed 16% to GDP in 2015/2016, Economic Studies estimates that manufacturing comprised 17.1% of Egypt's total GDP in 2015/2016, an increase on the 16.5% recorded in 2010/2011.

The sector is also an important source of employment, 2017 data indicating that 25.3% of the employed population works in industry, an increase from 25.1% in 2016. **(15)**

Ready-made garment exports, mostly from the Private Sector, amounted to about US\$ 800,000 in 2005 (the major part to the US) and divided between woven and knitted garments. Increasingly, the knitted garments are made from imported yarns and local, private sector knitting, dyeing & finishing and stitching units. Woven garment exports are mostly based on imported finished fabrics that limits the flexibility of companies and requires lead to times that buyers are less and less inclined to wait for. **(16)**

The advantages of the Egyptian Textile Industry stand on the in-house availability of the raw material of Egyptian Cotton, portions of which Turkey and India imports from Egypt in order to produce high quality products made of 100% Egyptian Cotton for the worldwide demand. Fabric production includes fine Egyptian cotton fabrics, shirting, fabrics for trousers/shorts, worsted wool fabrics, denim, fleece, jersey, flat/woolen knits, technical fabrics, and more. Apparel production includes active sportswear, outerwear, underwear, suits, socks, infant wear etc. Production of made-ups includes a wide variety of bed, bath, and table linens, kitchen accessories etc. **(17)**

Many countries with competitive labor costs and which do not grow cotton have invested in garmenting to meet their own local market needs or to develop an export trade, e.g. Bangladesh, Laos, Sri Lanka. These and other countries have developed garment industries with the creation of many thousands of jobs; generated the major part of the countries' foreign currency earnings and have often become the major contributor to poverty reduction in the countries. Many of these countries are now investing in backward integration to be more self-sufficient in fabric supplies for garmenting. This should be the next step in Egypt. **(16)**

Egypt 2016-2020 development strategy is providing support for small and medium-sized enterprises (SMEs) to help increase industrial production, create more jobs and boost exports. The strategy estimates that Egypt has 2.5m micro- or SMEs, comprising 75% of the labor force, yet only 17% of these businesses undertake export activities. Creating an enabling environment for these businesses will require assistance from a number of government-driven initiatives. Accessing credit and obtaining the necessary licenses remains a particular challenge for Egyptian businesses, **(18)**

This was also stressed in the "Global Entrepreneurship Monitor Global Report 2015-16", which focused on the country's need for simplification in licensing and permitting processes, and improved access to finance. **(12)**

In Egypt T&C is the third contributor to the GDP and in 2013, it accounted for 30% of local employment and for the 14% of non-petroleum exports **(19)**

Egypt's Textile Industry is a global giant and the second largest country's sector, contributing 30 % of industrial production and 25 % of total exports.

- Its vertically integrated structure is the pivot in the Middle Eastern region, linking complete production process right from the cultivation of cotton, to the making of yarns, fabrics, ready-made apparels and home textiles. **(11)**
- The Extra Long Staple Cotton is world renown and Egypt enjoys substantial comparative and competitive advantages over other countries.
- It has a high supply of labor at a low cost with embedded knowledge and skills, a central location on the globe and a wealth of natural resources.
- Egypt's expertise in the textile manufacturing industry has spanned many centuries, which make it a vital producer, exporter and importer.
- Egyptian Textile Industry consists of 4500 factories employing more than 1.5 million workers.
- Government runs various training programs, continuously upgrading the skill sets of the labor force and their managing personnel. **(5)**
- The location of the country facilitates quick and easy exports to other countries such as Asia, Africa, and Europe. Cargoes take less than 5 days to reach EU and 15 days to USA, turning it to a preferred sourcing location compared to its counterparts.
- Egyptian Textile industry has clustered in the main areas of the country, where the infrastructure and commercial ports are well established for export easiness and simplicity.
- New Textile Industrial Parks are being developed with more than 5 billion USD investment in the next 3 years. **(3)**

Weak points

The 4,000s textile companies supplying the local market are mostly in weak positions; many retail buyers want to pay cash without invoices; import penetration from formal and, especially smuggled goods, is rising; many raw materials are supplied by the public sector at high prices/ low quality and with no guarantee of delivery on time; the companies are often quite small, work with older machines and for limited hours per day. **(2)** The main weak points in textile industry in Egypt are:

- Absence of unified effort by key players
- Public Sector Mills
- Management
- Technical education does not meet industry's needs in numbers or quality of graduates.
- Private Mills working for local market.
- Woven dyeing, finishing and printing.
- Mills dependent on imported woven finished fabrics.
- Cost of finance
- Restrictions on imported cotton
- Limited and weak MMF production
- Focus on lower market segments **(16)**

Cost Structure Analysis

The industry does not seem to constitute a major issue impeding the industry from flourishing yet in relative terms wages in Egypt are higher than its competitors whereas productivity is lower (for example: in the case of Bangladesh wages are between 25-40% lower than Egyptian

wages, and productivity is between 25-50% higher, wages in Bangladesh around 76\$ whereas they are between 100-120\$ in Egypt.

The same is true for other competitors as Vietnam and India, on wages in the public and private sectors show an extent of variation as revealed by CAMPAS such variations are partially due to the differences of categorization of labor as well as devaluation effects (20)

Export Barriers & Challenges:

Research shows that exporters' sensitivity to barriers in the foreign market is determined by managerial perceptions which are in turn influenced by contextual factors associated with firm size, resources and capability, export involvement and international experience. Studies also show that exporters consider high banking charges, low capacity usage, and poor technology as the major problems that affect their business operations. In more general terms, changes in consumers' preferences, the presence of middlemen and agent representatives, import tariffs, problems finding a trustworthy distributor in the target country, exchange rate fluctuations, risk of losing money in the foreign market, and quality and safety standards are other potential export barriers to firms. (23)

However, although the industry is one of the largest in Egypt and is still expanding, it faces massive challenges, principally because the country does not produce enough of the raw materials necessary, unfavorable trade policies, and inadequate incentives for expansion. As a result, Egypt's textile industry relies heavily on imports, and the country does not earn as much foreign exchange from its textile industry as it should. Due to increasing demand of sustainable apparel design, environmental changes, market competition, unpredictable consumer demand, market trends of variety, short product life cycles and low barriers of entry the textile and apparel industry is one of the most highly competitive. (24). Manufacturing sectors in the third world. As obstacles to trade among nations have declined due to improved transportation systems, technology transfer and government cooperation, the industry has seen a rapid increase in globalization and competition. The all Egyptian textile mills association and individuals needs to enhance the quality of its products. However, the potentials in the RMG can be realized only if the challenges in some areas like – infrastructures, compliances, workforces supply, suppliers' performances, raw materials, political stability are tackled. (14)

Discussion of problems and challenges for rapid growth

Lack of Research and Development (R&D)

Sector: The lack of research and development (R&D) in the many especially in cotton sector of Egypt has resulted in low quality of cotton in comparison to rest of Africa. Because of the subsequent low profitability in cotton crops, farmers are shifting to other cash crops, such as sugar cane. It is the lack of proper (R&D) that has led to such a state. They further accuse cartels, especially the pesticide sector, for hindering proper R and D. The pesticide sector stands to benefit from stunting local R and D as higher yield cotton is more pesticide resistant.

Lack of Modernize Equipment: Moreover, the textile industry has obsolete equipment and machinery. The inability to timely modernize the equipment and machinery has led to the decline of Egyptian textile competitiveness. Due to obsolete technology, the cost of production is higher in Egypt as compared to other countries like India, Pakistan and china. (26)

Achieving preferred supplier status may be some distance away for Egypt T&C producers unless they are able to competitively differentiate themselves based on other factors. This is likely to remain the case until Egypt Producers are able to move up their technology trajectory and look to outsource and/or offshore their own T&C production base to 'locked out' countries. (27)

Lack of Industrial Upgrading and vertical integration system

The participation in global networks and global value chains can help industrial upgrading and improved economic performance. classifies the T&C (Textile & Clothing) industry as a buyer-driven GVC (Global Value Chain) which contains three types of lead firms: retailers; marketers; and branded manufacturers. Industrial upgrading in the clothing industry is primarily associated with a shift from assembly to full package production, which changes the relationship between buyer and supplier in a direction that gives far more autonomy and learning potential for industrial upgrading to the producer. This implies vertical integration, whilst also influencing GVC governance structures and the balance of power in favor of producers.

Egyptian Producers can move up the T&C value chain and integrate vertically, or they diversify moving horizontally into other sectors. In order to do this, producers and Government need to develop local linkages and supplier capabilities. It has been observed that countries diversify until they reach a certain level of income, after which they begin to specialize again (27)

Finance Bill to Burden Industry Further: The Majority of Textile Mills Corporation in Egypt has told that government's actions are not matching according to its expectations for the textile industry and its smooth growth. (28). According to them, reintroduction of minimum tax on domestic sales would invite unavoidable liquidity problem, which is already reached to the alarming level. Also the textile industry was facing negative generation of funds due to unaffordable markup rate on the one hand and acute shortage of energy supply and unimaginable power tariff for industry (29)

Increasing Cost of Production: The cost of production of textile rises due to many reasons like increasing interest rate, double digit inflation and decreasing value of Egyptian Pound. The above all reason increased the cost of production of textile industry which create problem for a textile industry to compete in international market. (29)

With little demand for highly qualified graduates, secondary and tertiary education continued to deteriorate, with even newly created private universities producing graduates as underqualified as those graduating from the old, decaying public ones

Labor abundant countries like Egypt has a comparative advantage in garment assembly as they can compete on lower wages. It is sometimes turned into a negative social argument that such comparatively low wages are unfair because they are lower than wages paid in developed countries. What really matters are whether wages paid to developing country textile and garment producers are different from those in other sectors, we suggest that the wages women are able to earn in the garment industry in Egypt are higher than in the available alternative forms of employment in other sectors, which is sometimes lacking altogether. This section will present the relative wages paid to labors within T&C industries. (30)

Internal Issues Pose a Larger Threat for Egyptian's Textile Industry:

Egyptian's textile industry is going through one of the toughest period in decades. The global recession which has hit the global textile really hard but it is not the only cause for concern. The high cost of production resulting from an instant rise in the energy costs has been the primary cause of concern for the industry. Depreciation of Egyptian Pound during last few years raised the cost of imported inputs. In addition, double digit inflation and high cost of financing has seriously affected the growth in the textile industry. Egyptian textile exports have gone through challenges during last three years as exporters cannot effectively market their products since buyers are not enough visiting Egypt due to adverse travel advisory and it is getting more and more difficult for the exporters to travel abroad. Additionally, the stress that government should take immediate measures to remove slowdown in the textile sector. High cost of doing business is because of intensive increase in the rate of interest which has increased the problems of the industry. Also loans availed crisis by the industry, hence, the volume of non-performing loans has reached to an alarming situation. Moreover, power shut downs may result in massive unemployment resulting in law and order situation.(31)

Energy Crisis: Electricity Crisis: As a consequence of load shedding, the textile production capacity of various sub-sectors has been reduced by up to 30 per cent. Many joint meeting of organization were held at different times to formulate a joint strategy to address the alarming electricity crisis being faced by the textile industry. The meeting unanimously decided to constitute a joint working group of electricity management for the textile industry in the larger interests of the value chain of

The textile industry. (32)

The joint working group will meet shortly to design a detailed plan to pursue the following goals;

Immediate total exemption from Electricity load shedding for the textile industry value chain; Rationalization and reduction of electricity tariff. The load-shedding of electricity cause a rapid decrease in production which also reduced the export order. The cost of production has risen due to instant increase in electricity tariff. Due to load shedding some mill owner uses alternative source of energy like generator which increase their cost of production further. Due to such dramatic situation the capability of competitiveness of this industry in international market has been effected badly.

Gas Shortage: Gas load-shedding continues in textile industries despite a significant increase in temperature. A Spokesman for the Textile & Ready Made Garment chamber claimed that 60 to 70 per cent of the industry had been affected and was unable to accept export orders coming in from around the globe.

Continuous gas disconnection over months, causing huge production losses are badly affecting the capability of the industry. In the larger interest of the economy and exports, the government should “ensure utility companies provide smooth electricity and gas supply to the textile industry”.

Tight Monetary Policy: The continuity of tight monetary policy causes an intensive increase in cost of production. Due to high interest rate financing cost increases which cause a severe effect on production. The additional added value tax of 14% also affects the production badly. The high cost of doing business is because of intensive increase in the rate of interest which has increased the problems of the industry. The government should take immediate measures to remove slowdown in the textile sector.

Lack of new investment: Egyptian textile industry is facing problem of Low productivity due to its obsolete textile machineries. To overcome this problem and to stand in competition, Egyptian Textile Industry will require high investments. There is a continuous trend of investing in spinning since many years. Egypt is facing externally as well as internally problems which restrict the new investment. (28)

The unpredictable internal condition of Bangladesh causes a rapid decrease in foreign investment that affected all industries but especially textile industry.

The 2011 Challenge: In the year 2011, some of the international policies regarding the export of textiles and garments will change, which may present the Egypt textile industry the greatest challenges it has had to face so far. (33)

There is much speculation at present about the situation of the RMG exporters in the post-MFA period, when the World Trade Organization, or WTO, instead of GATT will control the sector. Under the WTO all quotas will be removed, resulting in a free market worldwide. Egyptian's garment and textile manufacturers will have to face steep competition from countries such as Ethiopia, Tunisia, and Turkey, from whom the country now imports fabric to meet the demands of its RMG sector (28)

When the WTO free market is established, all these countries will be able to expand their RMG exports, now limited by Quotas. As a result, these countries will be able to utilize more of their locally produced yarn and fabrics internally, resulting in the rise of prices for these in the export market, putting pressure on the industries of countries such as Egypt.

United States and EU cuts imports of textile from Egypt:

United States cancels huge number of textile orders from Egypt. US also imposes high duties on the import of textile of Egypt which affects the export in a bad manner. US and EU are the major importer of Egypt textile which creates a huge difference in export of Egyptian textile after imposing a restriction on import of Egyptian textile goods.

Raw material Prices:

Prices of cotton and other raw material used in textile industry fluctuate rapidly in Egypt. The rapid increase in the price raw material affects the cost of production badly. The increase in raw material prices fluctuates rapidly due to double digit inflation and instable internal condition of Egypt. Due to increase in the cost of

Production the demand for export and home as well decreased which result in terms of downsizing of a firm. Hence the unemployment level will also increase. Government should take serious step to survive the textile industry. In order to decrease the price raw material for textile we need to increase our production

capability. Simultaneously, the government should make arrangement for introducing international system of Cotton Standardization in Egypt to enhance quality and value of Egyptian lint cotton by utilizing the technical services of Egyptian National Cotton Standard Institute.

Demand Supply Gap:

The phenomenal expansion of the RMG industry in Egypt and the dramatic increase in the population in addition to an increased standard of living cost in the country has led to a large demand-supply gap as shown by the following table. Only 21% of the total demand for yarn is met locally in Egypt. The figures for grey are not much better as only 28% of the total demand is met locally, the finishing sub-sector currently is able to process all of the locally produced grey, but will need to expand at, as with the weaving and knitting sub-sectors. All sectors of the textile industry face many of the same challenges. These problems include lack of power, obsolete technology, low capacity utilization, lack of machinery maintenance, a workforce that is not adequately trained, problems with labor unrest and militancy, political unrest causing disruption such as Hartals, and a lack of working capital

Export Performance of the Textile Sector:

Export performance of textiles sector in Egypt lies in an unsatisfactory level & considered a great concern to Egypt due to high cost of production, power shortage and stiff competition with regional players and other issues. (34) Governmental officers said that high cost of doing business, power shortage; poor industrial infrastructure and slow external demand are some major factors contributing to the more challenges in textile and its smooth export.

The Effect of Global Recession on Textile Industry:

Economics, the term 'recession' means "The reduction of a country's Gross Domestic Product (GDP) for at least two quarters; or in normal terms, it is a period of reduced economic activity." Egypt is developing economy in the world, and one of the lowest in terms of the dollar. It is sad to see our economy like this now. Egypt is actually a very economically diverse country with boasting industries of textiles, agriculture, etc. The main reason for this slump has largely been the political instability over the past few years; no proper economic policies were implemented; at least none that succeeded. This caused a very high rate of inflation, the prices of commodities soared through the roof, the number of people living below poverty line increased significantly and consequently, the working class layman became virtually deprived from basic necessities like water, Wheat, electricity, natural gas, and cooking oil; add to all this, the preposterous amounts of load-shedding, and what we get is a nation in shambles¹². The above all situation of the economy badly affected the textile industry also. The demand for textile product cut down locally and internationally as well. The export order reduced due to unpredictable conditions of Egypt and political instability. The cut down in the production of textile causes further unemployment level which decrease the living standard of people.

Effect of Inflation: Inflation rate is measured as the change in consumer price index (CPI). Inflation is basically in the price level. It is a decline in the real value of money. Inflation can have adverse effect on economy. Egypt is one of prey of inflation. It still faces high double digit inflation. The increase in inflation causes the increase in production of textile good which return in downsizing. The double digit inflation causes reduction in exports of textile

The Future of the Textile Industry in Egypt

The textile industry in **Egypt** has grown in an unplanned manner and a critical demand-supply gap has arisen for both yarn, fabrics & garments.

The crisis will naturally deepen unless appropriate backward linkages, the incorporation of the fundamental steps in the textile industry all through to the RMG industry, can be built to meet the rapidly approaching challenges in the global textile market. As the population is growing and the standard of living is increasing in **Egypt**, the demand for textiles is increasing rapidly. This presents an urgent need to dramatically increase capacities in spinning, weaving, knitting, dyeing, printing, and finishing sub-sectors. This will require the adoption of the most modern and appropriate technology to ensure quality products at competitive prices.

The possibility of increased yarn production in **Egypt** is an issue that has been looked into extensively by many researchers. These investigations have revealed the country actually has a comparative advantage over all competitors in terms of the expense of yarn production. However, the country has a very low depreciation rate and a fairly low interest rate as well, aided by a low conversion cost as well. However, the price of auxiliary materials in **Egypt** is the highest among all the yarn producers, as is the price of raw materials. Due to these two factors **Egypt** loses its comparative advantage over India and Pakistan. Most of the raw cotton imported by **Egypt** comes from overseas. The country is not only handicapped by the import

tariffs and shipping expenses, in countries like **Egypt** paying more for the same cotton. The outcome for the **Egyptian** spinning mills of such price differentials is that they obtain raw cotton of the same quality at prices, which are approximately 30% higher than the Indian mills, and Pakistani mills. In addition, **Egypt's** spinning mills have to pay another 6 to 7% for handling, freight, and commission charges which put them in a disadvantageous situation. The new infrastructure development surcharge, or IDS, on all imports added another 2.5% to the price of imported raw cotton. The weaving and knitting sub-sectors will also need to expand at a rapid rate, as there is a large demand-supply gap in the country. With increased investment in the sub-sectors and modernized machinery, **Egypt** could profit greatly from larger and more competitive weaving and knitting sectors. As current dyeing facilities are mostly dependent on imported fabrics, they are expanding at a rate which is not dependent on any of the other sectors. However, as local grey becomes more competitive, and its production is increased, the dyeing, printing, and finishing sub-sector will also need to expand to accommodate for the increased supply. The leakage from bonded warehouse facilities and smuggling of materials across borders also need to be monitored closely in order to assure the competitiveness of the local industry. (35)

The reduction of such problems will automatically improve the market position resulting in improved opportunities for the expansion of the **Egypt** textile industry. The possibility of increased yarn production in **Egypt** is an issue that has been looked into extensively by many researchers.

Egypt has a lower waste percentage than all its competitors¹². Power along with Korea is the cheapest in

Egypt amongst all the yarn producers. The country also has a very low depreciation rate and a fairly low interest rate as well, aided by a low conversion cost as well. However, the price of auxiliary materials in **Egypt** is the highest among all the yarn producers, as is the price of raw materials. Due to these two factors **Egypt** loses its comparative advantage over India and Pakistan. The country is not only handicapped by the import tariffs and shipping expenses, but India and Pakistan subsidize the raw cotton, which is sold

locally, resulting in countries like **Egypt** paying more for the same cotton. The outcome for the **Egyptian** spinning mills of such price differentials is that they obtain raw cotton of the same quality at prices, which are approximately 30% higher than the Indian mills, and Pakistani mills (36)

In addition, **Egypt's** spinning mills have to pay another 6 to 7% for handling, freight, and commission charges which put them in a disadvantageous situation. The new infrastructure developments charge, or IDS, on all imports, which was stipulated in the 1997/98 fiscal year, added another 2.5% to the price of imported raw cotton. The weaving and knitting sub-sectors will also need to expand at a rapid rate, as there is a large demand-supply gap in the country. With increased investment in the sub-sectors and modernized machinery, **Egypt** could profit greatly from larger and more competitive weaving and knitting sectors. As current dyeing facilities are mostly dependent on imported fabrics, they are expanding at a rate which is not dependent on any of the other sectors. However, as local grey becomes more competitive, and its production is increased, the dyeing, printing, and finishing sub-sector will also need to expand to accommodate for the increased supply. The leakage from bonded warehouse facilities and smuggling of materials across borders also need to be monitored closely in order to assure

the competitiveness of the local industry¹⁵. The reduction of such problems will automatically improve the market position resulting in improved opportunities for the expansion of the **Egypt** textile industry.

Recommendations to overcome the challenges for growth of Textile

Industries

Despite all the challenges that exist in Egypt, companies can still highly benefit from its sourcing offering. Together effort from three main stock holders like government, suppliers and buyers can work to overcome these various hurdles to success (37)

Some Recommendations are given as under Zero Rating on import of all textile machinery, Zero rating exports, tariff reduction, Incessant energy supply to textile units, Issues relating to the market access, Quality products with timely delivery, Single digit mark up and Special power tariff for the Duty free market access to European Union and United States, Remedy though Foreign Direct Investment (FDI), Images of Building of **Egypt** to Attract Foreign Direct Investment (FDI), Focus on Value Addition, Technology Up-gradation and Capacity Building, Human Resources Development, Reducing the cost of doing Business in **Egypt**, Need for Improving Textile Production, Awareness of International Quality Standards, Introducing concept of on-the- job-training, Introducing efficient management techniques, Subsidy removal should be taken a back, Interest rate should be low down in order to survive this industry, Electricity and gas tariff, Removal of Energy Crisis, Exploration of new Export Markets, Bonded warehouse facilities, Duty free importation of raw materials of export in the RMG, Avoidance of double taxation for joint venture projects, Income tax exemption for up to three years for foreign technicians, Duty on dyes and chemicals will be withdrawn, Duty free import of capital machinery, Close monitoring of leakage in the market, Appoint an advisory committee to represent the industry to the government, Improvement of research and computer technology, All sectors of the industry will be modernized, Rehabilitated as much as possible, Tariffs will be rationalized, The policy calls for the establishment of many new factories and projects, but does not provide a scheme for financing them, The lack of training and technology is mentioned, but no steps are suggested for enhancing the skills of the workforce and engineers, No suggestions are made for setting up institutions to conduct the technical and marketing research needed to upgrade the quality of **Egyptian** products to make them more appealing in the International market. The need for the expansion of the **Egypt's** infrastructure such as roads, ports, and railway capacities to accommodate increased imports and exports is not mentioned. The great problems arising from the shortage of suitable land on which to build the necessary factories is also not considered. The policy states that environmental pollution is negligible, but does not go further into the matter. However, it was very obvious to me on one of my factory visits that affluent treatment and disposal in the industry is a very serious problem. The need for more power is mentioned, but no plans have been devised on how the expansion will be undertaken.

Conclusion:

The suggestive tools developed in this article cover a comprehensive series of aspects in the expected sustainable and potential textile industries growth. Egypt textile industry is going through one of the toughest periods in day after day. The global recession which has hit the global textile really hard is not the only cause for concern. Serious internal issues also affected

Egypt textile industry very badly. The high cost of production resulting from an instant rise in the energy costs has been the primary cause of concern for the industry. Depreciation, double digit inflation and high cost of raw materials has seriously affected the growth in the textile industry. It is getting more and more difficult for the exporters to travel abroad to attract potential buyers. Egypt’s textile industry lacks research and development (R and D), The production capability is very low due to obsolete machinery and technology. Egypt is facing high cost of production due to several factors like electricity tariff, the increase in interest rate, energy crisis, devaluation of Egyptian Pound, increasing cost of inputs, political instability, removal of subsidy and internal dispute. The above all factor increase the cost of production which decreases the exports. Government should provide clear vision to accomplish the development of potential and sustainable textile industries growth in Egypt & should provide solutions in creating industrial environment for the industry to grow, develop & increase local and international market & industry investment. Some of solution & actions required may include the following:

- Clear and transparent policies to support this industry for both local & export economies.
- Government Vision concerning the future of the industry should be translated into strategic action plans for development.
- Promoting joint ventures with ministry of education & technical assistance available to proceed training in factories through Vocational Training which can provide technical assistance for factories for enabling them access to global markets
- Greater attention to product development and differentiation; and establishment of niche markets, which can provide added value and make use of Egypt's superior grade cottons
- Raising awareness of the importance of high quality products which can easily penetrate & compete in the international market.
- Ensuring efficient legal framework which can deal smoothly and promptly with issues concerning investments

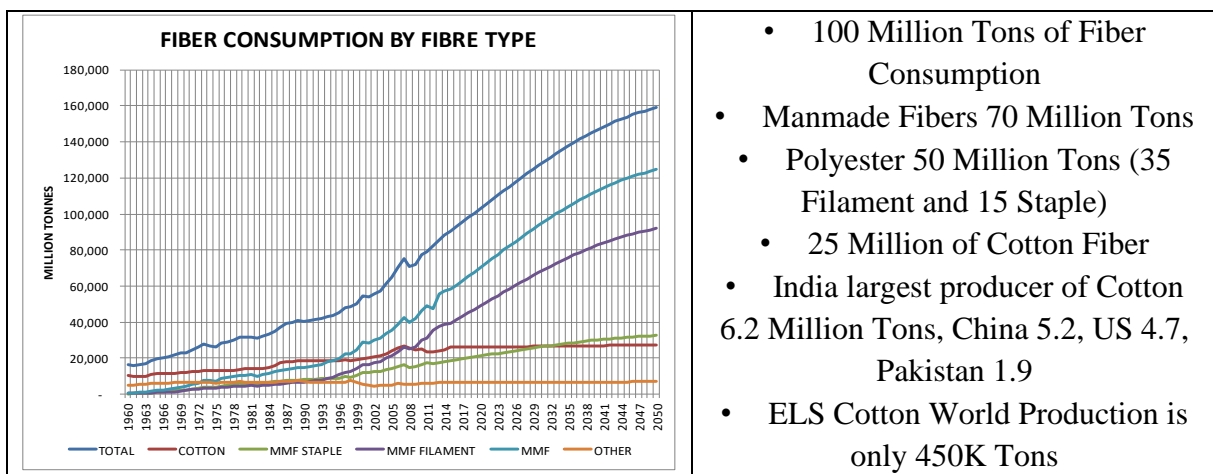
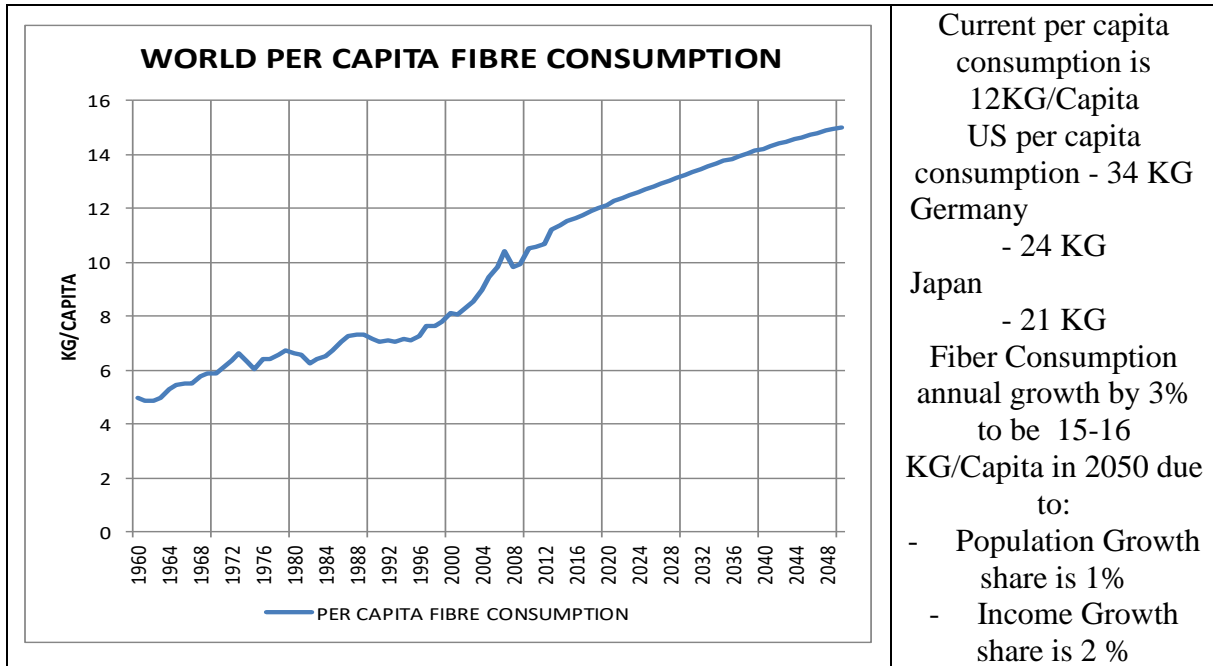
Tables & Figures

Mapping of Factory Visits

	Spinning	Weaving	Knitting	Dyeing	Sewing
March 2019	Obour Industrial	Obour Industrial	Obour Industrial		Obour Industrial Area
	Badr Industrial				
	10th of Ramadan	10th of Ramadan	10th of Ramadan	10th of Ramadan	10th of Ramadan
	Borg El Arab Industrial	Borg El Arab Industrial	Giza - Kafr Hakim	Obour Industrial	Giza - Kafr Hakim
	El Amria Free Zone	El Amria Free Zone	Cairo - Shoubra		Cairo - Shoubra

	Sadat Industrial	Sadat Industrial	Cairo - Shoubra	Cairo - Shoubra
	Mehalla	Mehalla	Mehalla	Mehalla
			15th of May Industrial	15th of May Industrial
		Beni Seweif Industrial		Port Said Free Zone

General Statics: (Global Value Chain)

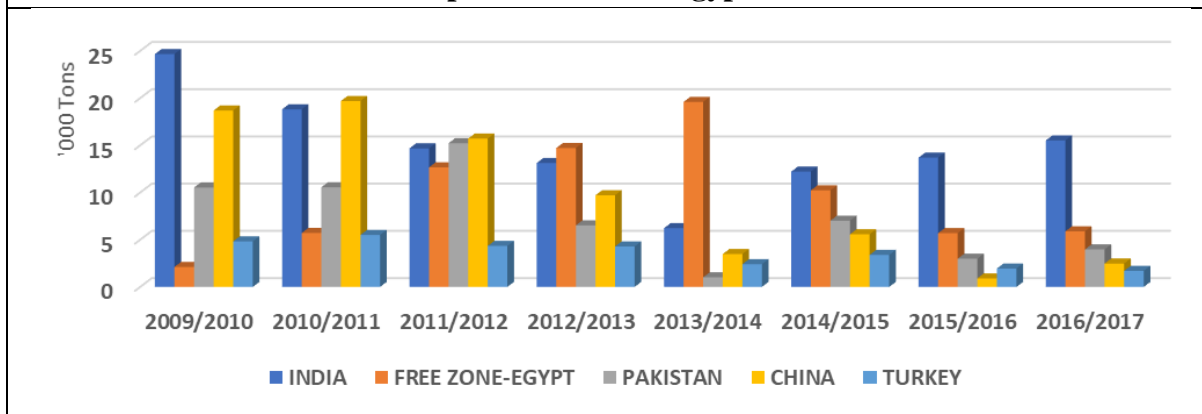


Vertically Integration Structure of the Egyptian Textile Industry

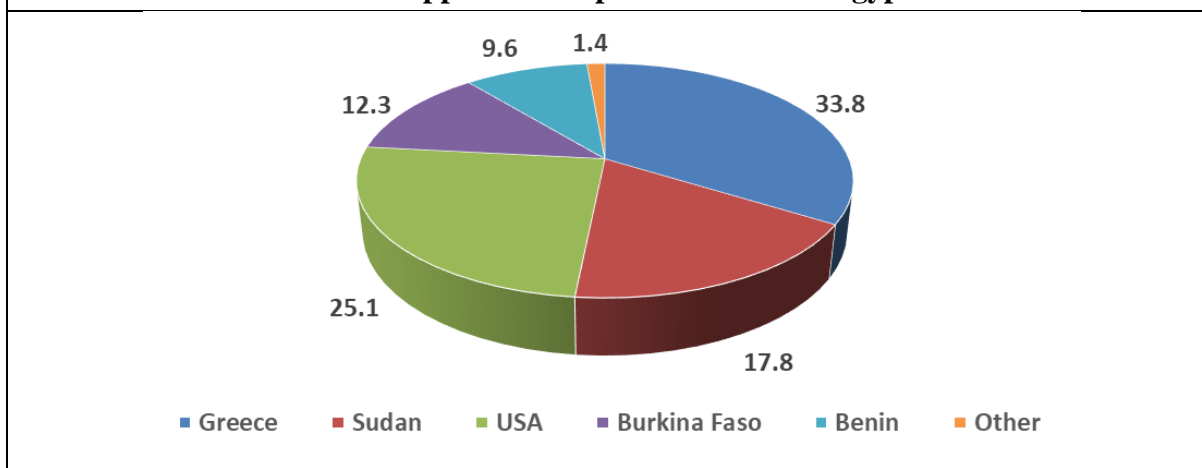
Creation of Added value: Yarn vs high value products

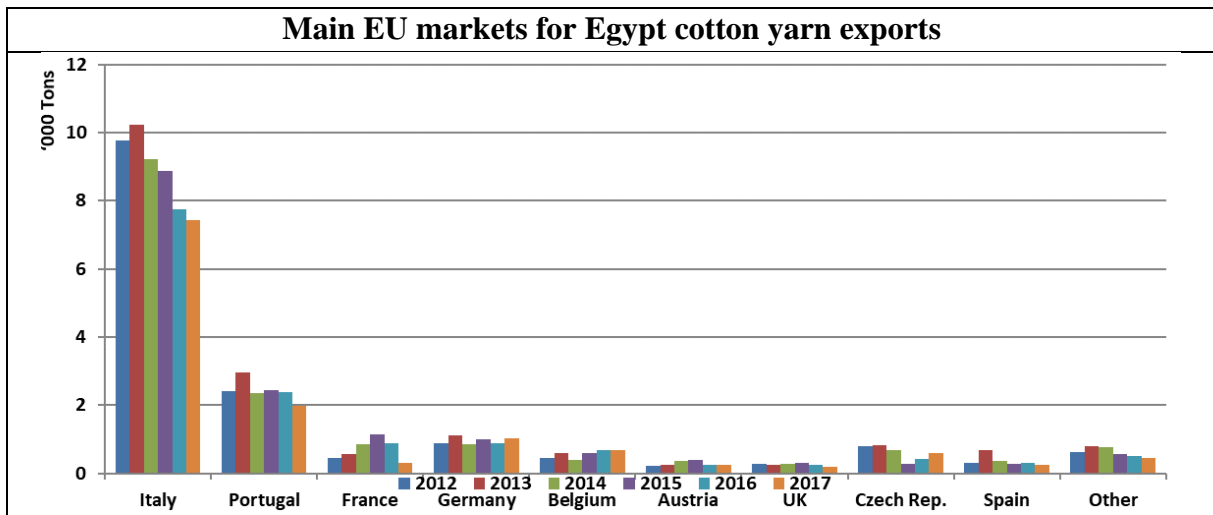
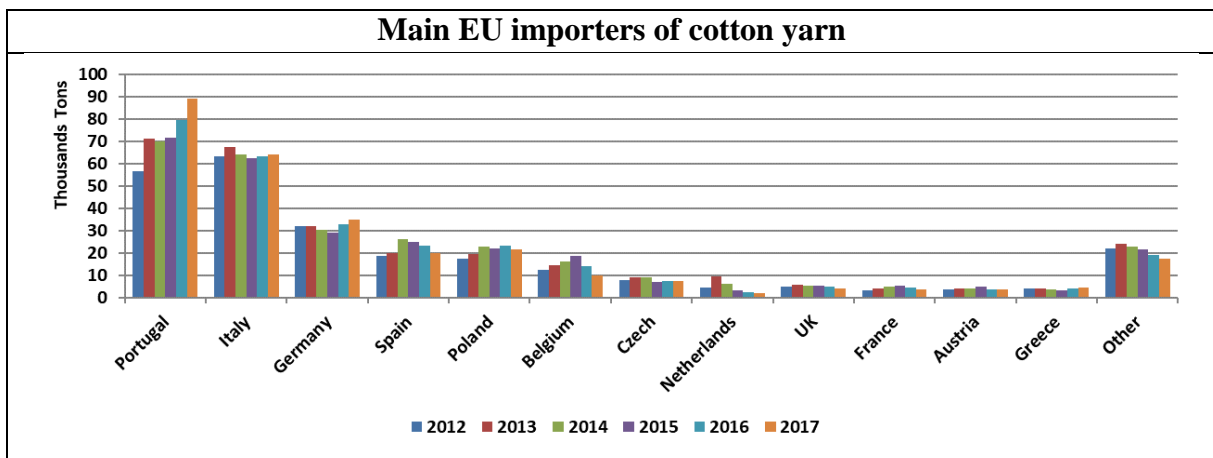
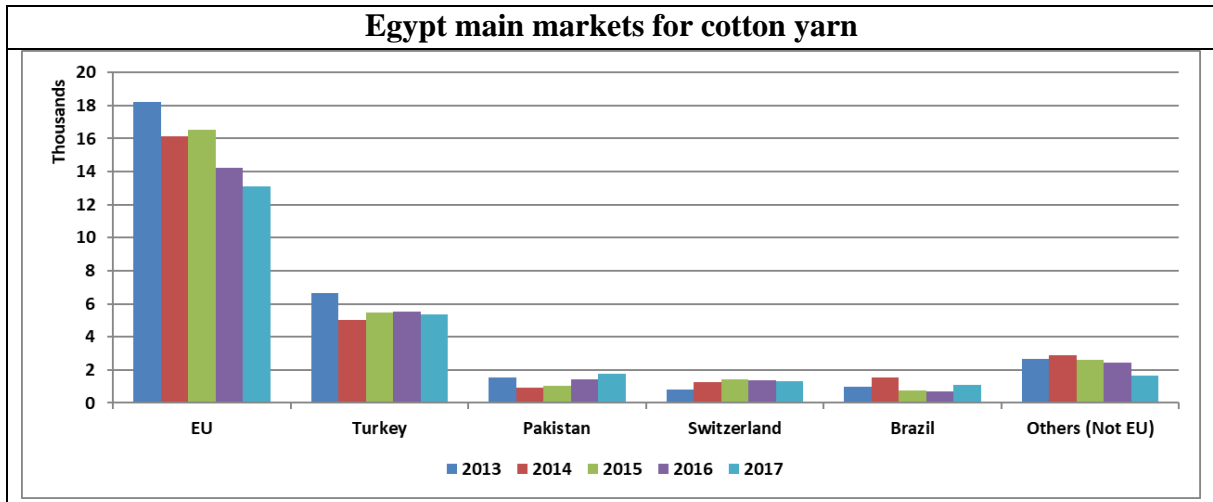
Type product	Units	Selling price Average	Added Value	Raw material	Kg Raw material Consumptions for units
Fine Yarn Egyptian Cotton (average count Ne 60/1)	1 Kg	7,16	50%	4,78	1,42
Fine Yarn Egyptian Cotton (average count Ne 100/1)	1 Kg	11,04	122%	4,97	1,42
BedSheets Egyptian Cotton (average Tc 400)	1 Sets	26,74	135%	11,36	3,68
Terry Towels Egyptian Cotton	1 Kg	5,47	106%	2,65	1,35
Fine Shirting Egyptian Cotton (dyed yarn)	1 Shirting	10,84	471%	1,90	0,54
Pant & Trouser Egyptian Cotton (grey fabric)	1 Meter	1,83	116%	0,85	0,31
Knitting Fabrics Egyptian Cotton	1 Kg	7,95	160%	3,06	1,49
Knitting Garment Egyptian Cotton	1 Kg	13,18	319%	3,15	1,51

Main export market for Egyptian cotton



Main suppliers of imported Cotton to Egypt



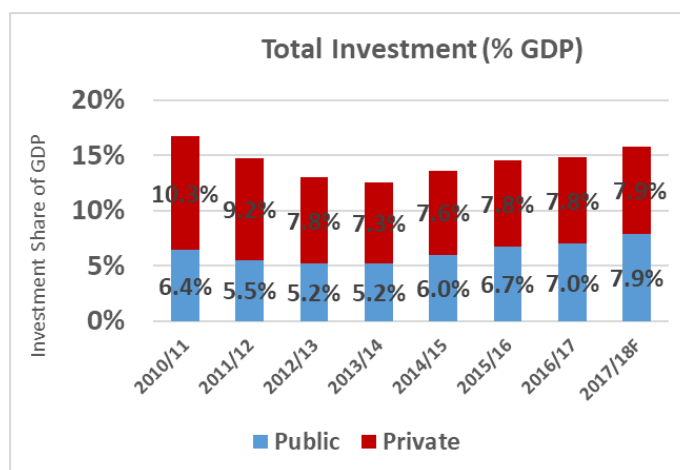
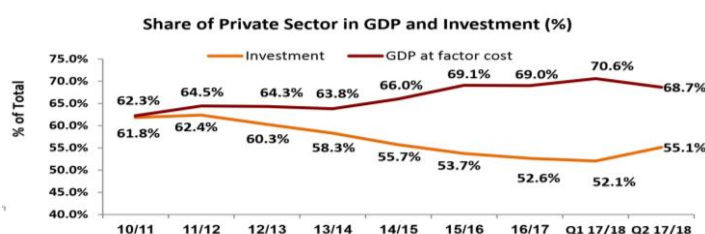


Egypt share in EU imports of cotton yarn by count range (Tons)										
	2009	2010	2011	2012	2013	2014	2015	2016	2017	Egypt Share %
Less than NE8	22,322	24,512	19,118	19,201	17,907	19,140	19,370	16,257	11362.0	1.40%
NE8-NE25	113,207	120,962	106,022	105,625	122,220	122,627	119,285	115,780	109,473	
NE25-NE30	67,467	79,227	62,915	64,677	75,924	76,552	80,466	83,491	90,092	
NE30-NE47	35,912	41,733	31,775	28,301	33,026	30,164	28,980	32,339	31,612	15.60%
NE47-NE55	7,821	10,440	8,972	7,981	10,055	9,053	8,817	9,362	8,170	
NE55-NE70	14,014	17,750	15,614	13,823	14,861	17,358	14,389	14,642	15,106	
Above NE70	9,129	12,031	10,068	9,936	10,044	10,254	9,866	9,379	9,026	
Total	269,872	306,655	254,484	249,544	284,037	285,148	283,188	283,266	274,841	4.70%

Egypt's Private Sector Leading Economic Growth & Investment

Higher contribution of Private Sector to GDP and slight increase in private sector share in GDP, with more efforts to increase private sector contribution on the way:

- Electricity Law: Sector deregulation and liberalization has paved the way to attracting sizable private investments in renewable energy- target is 4GW generation of renewable energy by private sector by 2022
- Natural Gas Law: permit for the first time the issuance of licenses for imports and distribution of natural gas by the private sector
- Railway Law: allow private sector to participate in developing, managing and operating railway projects
 - Enhance the role, effectiveness and ability of Egypt's Competition Authority (ongoing)



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