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IMPACT OF PROPOSED EXPANSION OF QUALIFYING INDUSTRIAL ZONES IN EGYPT

A Preliminary Assessment

November 2012

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A Preliminary Assessment

Egypt Trade Facilitation Project

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Contractor: Nathan Associates Inc.

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Background

Following the signing of the Egypt-Israel QIZ Protocol by the Egyptian and Israeli governments in December 2004, the United States granted duty-and quota-free market access to imports originating from companies located within designated Qualifying Industrial Zones (QIZ) in Egypt, provided that their products comply with the U.S. mandated rules of origin. Specifically, Article II/D/1.a of the Egypt-Israel QIZ protocol, which addresses the rules of origin, requires that 35% of a product's value must be manufactured in Egypt, in accordance with U.S. requirements for QIZs, of which 10.5% must be of Israeli origin.

QIZs have been successful in catalyzing exports from Egypt to the United States. In 2005, the first year of QIZ operations, Egyptian exports to the United States totaled \$2.1 billion and QIZ exports accounted for \$266 million (13%) of that. From 2005 to 2010 Egypt's non-QIZ exports declined by \$549 million, largely due to declining exports of oil and gas. At the same time Egypt's QIZ exports grew by \$690 million. QIZ exports continued to grow slightly even during 2011, the year of Egypt's revolution. As a share of its total exports to the United States, Egypt's QIZ exports have grown from 13% in 2005 to 52% in 2011. (Table 1.)

. In 2011 textiles and ready-made garments (RMG) made up 95% of these exports by value (\$929 million). Chemicals (\$26 million) accounted for 3% and food and prepared food products (\$15.2 million) accounted for 1.5% with all other export categories accounting for the remaining 0.5% in 2011. More than 150 companies have registered as QIZ exporting companies, up from 54 registered when the first QIZs were established in the second quarter of 2005.¹

The success of Egypt's QIZ program provides a solid foundation on which Egypt and the United States can work to further utilize QIZ preferences to help the Egyptian economy recover a positive growth trajectory and generate much needed employment and foreign exchange earnings. An expansion of QIZs in Upper Egypt offers investors opportunities that current QIZ production, concentrated in the Cairo-Alexandria corridor, does not, specifically, access to less expensive supplies of both labor and land.

The potential for expansion raises the following questions that Nathan Associates has been asked to address:

¹ Taken from "QIZ Data" page on website, www.qizegypt.gov.eg maintained by the Ministry of Foreign Trade and Industry, Government of Egypt. All data on QIZ exports are taken from the website of the United States International Trade Commission: <http://reportweb.usitc.gov>. Data from Egypt's Statistical Office (CAPMAS) are not as up to date, nor do they distinguish QIZ exports from other exports.

1. What types and volumes of production can be expected from the new QIZs?
2. How significant will the impact of additional imports into the United States from new Egyptian QIZs be on production and employment in the United States?
3. What will be the likely impact on investment and employment in Egypt?

This report is a preliminary response to the first two of these questions prepared using analysis of past data combined with interviews with Egyptian businessmen and professionals familiar with the history of QIZs in Egypt. If time and resources permit, additional analytical tools will be employed to refine and confirm these preliminary conclusions.

Summary of Main Conclusions

This preliminary assessment focuses on the first two questions posed above. What additional products destined for import into the United States are likely to be produced in the new QIZs? How significant will the impact of additional imports into the United States from new Egyptian QIZs be on production of similar goods in the United States?

Creation of new QIZ areas in Upper Egypt will likely spur new investment and additional production that will generate new employment in Egypt and lead to more QIZ exports to the United States. The chief constraints on potential exports from new Upper Egypt QIZs will be Egypt's ability to mobilize investment and operations and compete with existing exporters from Lower Egypt. The magnitude of new growth is unlikely to match the gains seen in 2005 and 2006 when Egypt's QIZ exports increased from zero to \$643 million in 24 months. After that initial surge, annual growth in the value of QIZ exports to the United States has varied widely from a peak of 18% in 2008 to a decrease of 3% in 2009 (owing to the recession). In 2009, the U.S. approved two additional QIZs in Egypt. In 2010, economic activity picked up and QIZ exports recovered, growing by 12.7% in 2010 and 5.5% in 2011, a total of 18% (\$161 million) over two years.² Established QIZs have the potential to continue their own growth albeit likely at a slower rate, and additional exports generated by the new QIZs will add to that growth. In all likelihood, the total incremental output from the new QIZs will begin at less than \$100 million per year. Total future output from the new QIZs is difficult if not entirely speculative to predict, but for purposes of estimating an impact on U.S. trade and employment, an upper bound of \$400 million (40% of current output from existing QIZs) has been assumed³ – a level unlikely to be exceeded for several years.

Informed interviews suggest that most of these additional exports from Egypt to the United States will be ready-made garments (RMG) and home textiles (bed linens, carpets, and towels), similar to the profile of current QIZ exports from Egypt to the United States. It is expected that exports of processed foods will remain a small percentage (under 5 percent) of the new exports.

² Information about much of the additional exports originated from new QIZs has not reached Nathan Associates in time for this printing (June 19, 2012).

³ See the discussion later in this paper of the Peterson Institute of International Economics' estimate of the value of increased exports from new QIZ designations in Egypt.

The additional imports into the United States expected from new QIZs in Upper Egypt are unlikely to have a material impact on U.S. production or employment for the following reasons:

- Most imports from the new QIZs will be RMG and home textiles. In the category of RMG, total imports into the United State from all global suppliers already account for 98% percent of total U.S. consumption; U.S.-based production accounts for only 2%.
- The major adjustments in U.S. manufacturing and employment in RMG and textile industries have been underway since the entry of China into the World Trade Organization and the end of the textile and clothing quota system in 2005. Additional exports from Egypt at this point will be too small and coming too late to have a material impact on investment and operational decisions in this industry. U.S. producers in textiles and RMG have already made their important economic and strategic decisions, and a very marginal increase in QIZ exports from Egypt will not alter the strategy of U.S. producers.
- Today almost 8 out of every 10 persons employed in the textile and apparel sector in the United States work in the retail and wholesale segments of the value chain, not in manufacturing. These retail sector jobs depend on the flow of competitively priced imports into the United States.
- Egypt's current QIZ exports to the United States account for less than one half of one percent of U.S. imports in specific product categories, so even an increase of 40% from new QIZs would still amount to less than 1% of all exports currently entering the U.S. market.
- Egypt's total apparel exports (QIZ and non QIZ) to the United States in 2011 represented 1.2% of all apparel imports into the United States.
- The additional U.S. imports from newly created QIZs in Egypt will likely displace competing imports from other sources, mainly China, which exports the same goods categories to the United States. So net increased imports entering the market in the United States will be only a fraction of the gross increased QIZ exports from Egypt.

Findings and Analysis

Egypt's overall exports to the United States more than doubled over the past 11 years, from \$925 million in 2000 to \$1.9 billion in 2011 (Table 1). QIZs have been instrumental in spurring and sustaining Egyptian export levels. In 2011 the majority of Egypt's exports entered under the QIZ program and, even as the growth trajectory of overall Egyptian exports fluctuated between 2007 and 2011, QIZ export growth remained steady (Table 1). And the growth in the products driving the increase in Egyptian exports – woven clothing, knitted clothing, and carpets – is largely attributable to QIZs.

Table 1: Egypt's Exports to the USA, 2000-2011, in millions USD

Import Program	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
	<i>In 1,000,000 Dollars</i>											
All Other	899	830	1,317	1,095	1,290	1,745	1,691	1,579	1,413	1,185	1,196	868
GSP	26	22	24	32	38	65	70	61	57	45	51	49
QIZ	0	0	0	0	0	266	643	740	874	848	956	1,009
INDEX of QIZ Program Exports (2005=100)						100.0	241.7	278.2	328.6	318.8	359.4	379.3
Total exports	925	852	1,341	1,127	1,328	2,076	2,404	2,380	2,344	2,078	2,203	1,926
QIZ Exports as a Percent of All Egypt Exports	0.0	0.0	0.0	0.0	0.0	12.8	26.7	31.1	37.3	40.8	43.4	52.4
Egyptian Petroleum & Natural Gas Exports to the U.S.⁴	158	128	194	163	194	1,058	963	1,107	879	893	698	227

Source: Compiled from tariff and trade data from the U.S. Department of Commerce and the U.S. International Trade Commission

In 2005, the United States made three QIZ designations in Egypt: Greater Cairo, Alexandria and Suez Canal in 2004 (69FR4199); Central Delta, Expanded Greater Cairo, and Expanded Suez Canal (70FR69622). Two additional designations, Beni Suef and Al Minya, were made in 2009 (74FR4482) (Figure 1).

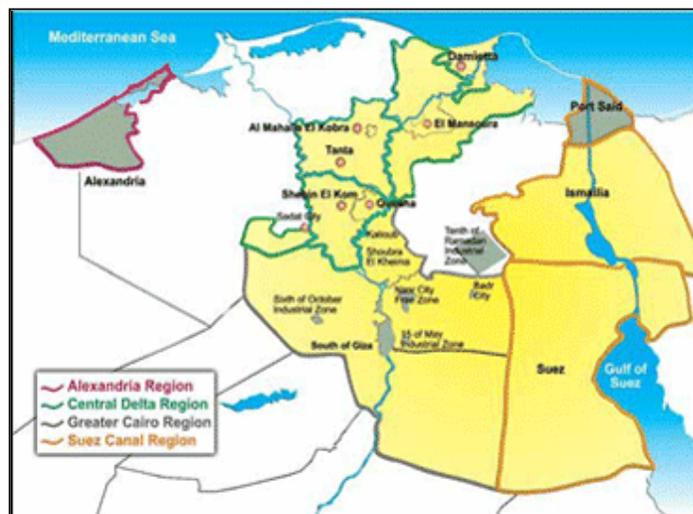


Figure 1: Map of the Designated QIZs in Egypt

⁴ The figures for petroleum and gas are highlighted given their significance in Egyptian exports to the United States. Note that these values are not in addition to, but included in, the total of "All Other" exports and "QIZ" in Table 1 above. The increase and decrease in exports from Egypt to the United reflects in large part a surge in petroleum and gas exports that jumped from \$194 million in 2004 to \$1.1 billion in 2005 and then declined to \$698 million in 2010 and \$227 million in 2011. This decline in petroleum and gas exports is also a factor in the rising percentage of QIZ exports to total Egyptian exports to the United States.

The initial QIZ designations applied to areas with the greatest concentration of Egyptian manufacturing capacity, especially the private sector apparel producers with established relationships with U.S. buyers. These firms had for some time been laying the groundwork for QIZs. Therefore, the Egyptian government and private sector were able to quickly capitalize on QIZ benefits without a lag related to investing in new plant, equipment, labor, and market development.

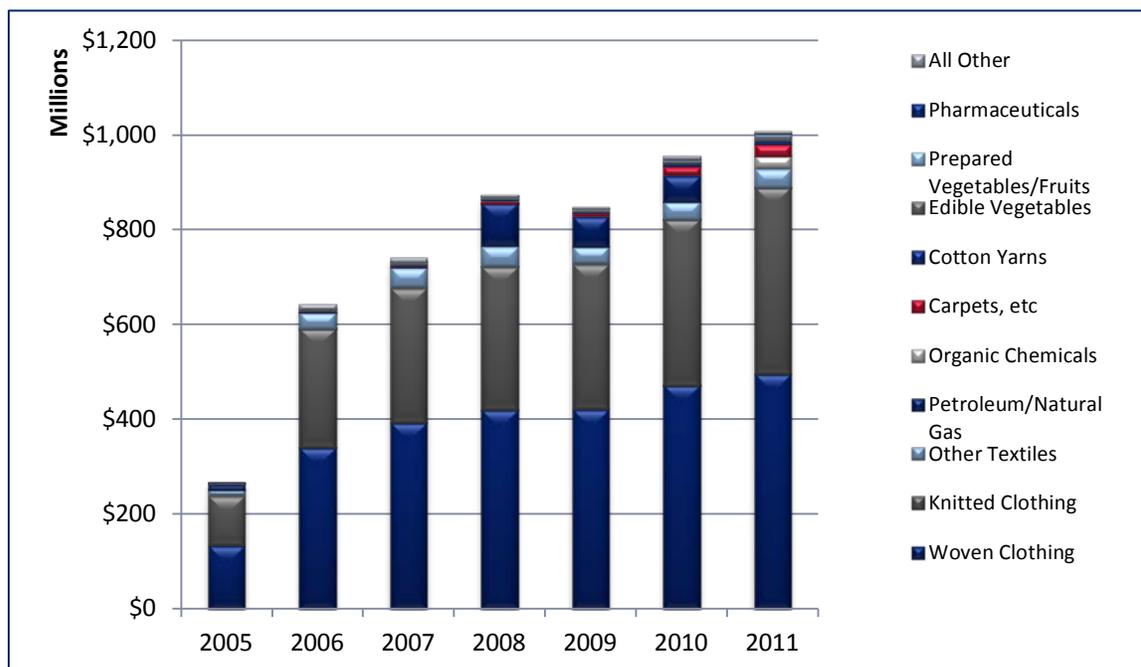
Growth in QIZ exports from Egypt over the seven-year period since their establishment in 2005 is shown in below in Table 2 and illustrated in Figure 2. They both show the predominance of woven and knit clothing in the mix of exported products.

Table 2: Egypt's Top 10 QIZ Exports to the United States, by HS 2 level, 2005-2011

Category	HS code	2005	2006	2007	2008	2009	2010	2011
	<i>In millions USD</i>							
Woven Clothing	62	134.4	339.1	392.9	420.2	421.5	471.3	495.7
Knitted Clothing	61	104.7	251.3	285.0	301.9	306.7	350.0	393.6
Other Textiles	63	11.8	34.3	41.6	43.0	35.3	38.8	40.2
Organic Chemicals	29	0.0	0.0	0.0	0.0	0.0	0.0	26.0
Carpets, etc.	57	0.43	0.8	2.6	5.32	6.4	17.0	24.9
Cotton Yarns	52	0.6	3.0	5.0	42.0	3.3	77.0	7.4
Edible Vegetables	7	0.69	2.1	2.6	3.3	4.2	3.7	6.9
Prepared Vegetables/Fruits	20	0.09	0.2	0.27	0.8	1.5	2.5	6.8
Pharmaceuticals	30	0.009	0.008	0.01	0.08	0.77	1.5	2.1
Petroleum/ Natural Gas	27	12.0	0.0	0.0	90.1	65.0	55.8	0.0
All other		1.5	12.5	10.5	4.8	3.7	7.8	5.5
Total:		266.2	643.4	740.3	873.6	848.1	956	1,009

Source: Compiled from tariff and trade data from the U.S. Department of Commerce and the U.S. International Trade Commission.

Figure 2: Top 10 Categories (HS 2) of QIZ Exports, 2005-2011
(in millions USD)



Source: USITC

Creation of the QIZ program led to an initial surge in production and exports from Egypt in 2005 and 2006, after which annual growth continued at the rate of \$100 million (15-18%) per year for 2007 and 2008 but then declined by 3% (\$25 million) in 2009. QIZ exports recovered in 2010, and, by the end of 2011, were \$135 million (15%) above 2008 peak levels.

The likelihood of a new QIZ designation leading to a significant uptake in the total value of QIZ exports or change in the product mix thereof is small. Upper Egypt does not offer a concentration of existing private sector apparel firms similar to that found in the original QIZs established in Egypt in 2005. In addition, Egypt has thus far not succeeded in diversifying the product composition of its QIZ exports, despite frequent urgings from the United States. Apart from RMG, the categories of exports to the US have not seen significant growth. If Egyptian firms have not generated significant new QIZ products in the relatively advanced business and manufacturing environs of existing QIZ zones, they are unlikely to do so quickly in the less developed area of Upper Egypt.

Within the top QIZ export categories, there has been a steady increase since 2005 in certain categories of apparel, most markedly for woven cotton trousers, but also for other types of trousers and manmade fiber knitted sweaters (

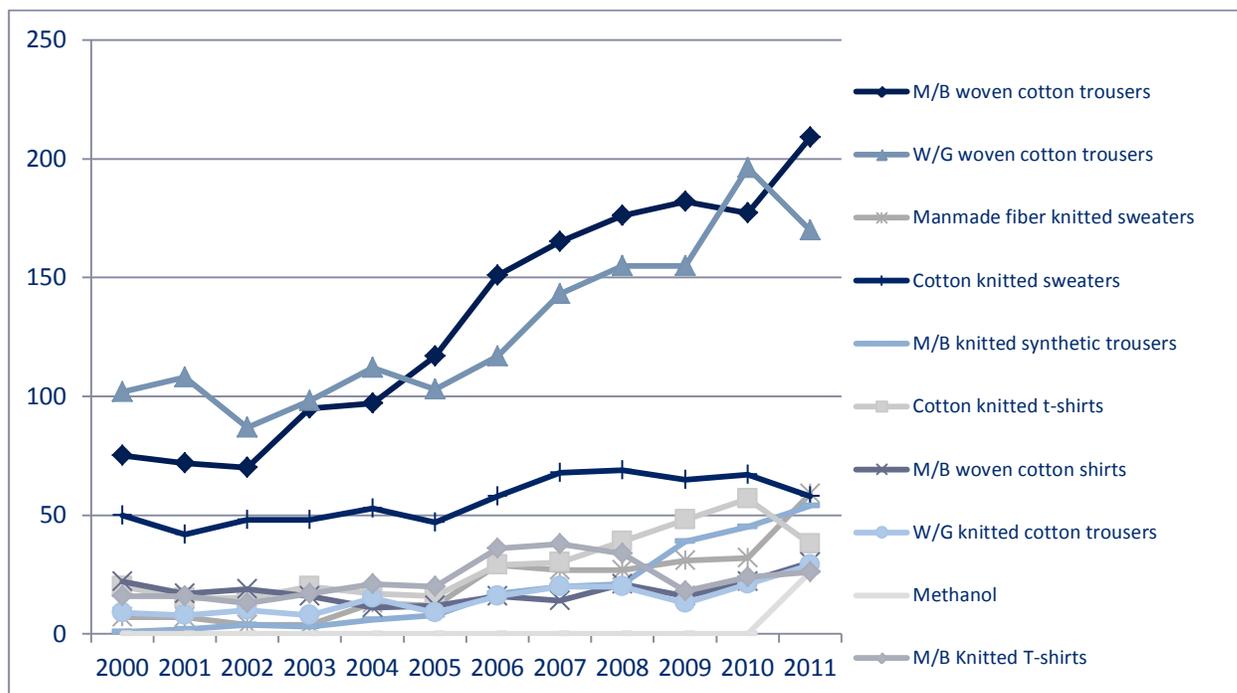
Table 3 In 2011 these top ten products make up 70% QIZ exports and 36% of total Egyptian exports to the United States.

Table 3: Top Ten Export Categories to the United States (2000-2011)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<i>In Millions of USD</i>												
M/B woven cotton trousers	75	72	70	95	97	117	151	165	176	182	177	209
W/G woven cotton trousers	102	108	87	98	112	103	117	143	155	155	196	170
Manmade fiber knitted sweaters	7	7	4	4	13	12	29	27	27	31	32	59
Cotton knitted sweaters	50	42	48	48	53	47	58	68	69	65	67	58
M/B knitted synthetic trousers	1	2	4	3	6	8	17	20	21	39	45	54
Cotton knitted t-shirts	20	15	15	20	17	16	29	30	39	48	57	38
M/B woven cotton shirts	22	17	19	16	11	12	16	14	21	16	22	30
W/G knitted cotton trousers	9	8	10	8	15	9	16	20	20	13	21	29
Methanol	0	0	0	0	0	0	0	0	0	0	0	26
M/B Knitted T-shirts	16	16	13	17	21	20	36	38	34	18	24	26
Sub-total	302	287	270	309	345	344	469	525	562	567	641	699

Source: Compiled from tariff and trade data from the U.S. Department of Commerce and the U.S. International Trade Commission

Figure 3: Top QIZ Exports, 2000-2011 (2011 base year), in millions of USD



An Upper Egypt QIZ designation can thus be expected to generate a similar profile of additional exports to the United States in apparel, textiles, and other products – with related increases in jobs and investment – as firms seek to capitalize on the region’s lower labor costs. Some owners have mentioned relocating from older QIZs to newer ones in Upper Egypt. However, given the political difficulties of closing existing operations in Egypt, owners planning to invest in the new QIZs are likely to do so without liquidating ongoing operations elsewhere in Egypt.

QIZs lend themselves to production of goods that would otherwise be subject to high import tariffs in the United States. This is particularly the case for products that are not eligible for GSP treatment, such as textiles and apparel, footwear, and luggage. Egyptian exports of RMG and textiles are subject to U.S. duties ranging from under 1 percent to over 30 percent,⁵ unless exported from a qualified QIZ exporter. Apparel and textile producers generally note that a good must be subject to a U.S. tariff of at least 10 percent in order to gain the necessary margin for Egypt to compete with lower cost producers such as China and Bangladesh, as well as to offset the additional costs of including Israeli inputs. Representatives of Egypt’s Chamber of Food Industries note that member companies have generally concluded that QIZs will be of limited value as most of the food products likely to be exported are subject to low U.S. tariffs.⁶

⁵ For example, the U.S. import duty on man-made fiber, knit sweaters – Egypt’s third largest export category to the United States – is 32 percent.

⁶ U.S. duties on a few, selected food items are significant, e.g., the tariff on imports of dried onion/garlic powder (07122020) is 29.8 percent.

Based on the experience of the last expansion of QIZs, this new expansion could be expected to result in additional product exports in the range of \$150 million after two years. How much more after that will depend on many factors unknown at this time. However, for the purpose of this analysis – which is to gauge the potential impact of additional QIZ exports on U.S. imports, production, and employment - it is safe to assume that the increase will not exceed 40% of current QIZ export volumes, or approximately \$400 million within the next five to six years.

Trade Volumes in Perspective

Egypt's nearly \$1 billion in QIZ exports in 2011 represent a major share – 52 percent – of its total exports to the United States (see Table 4 below). With RMG and textiles accounting for 95 percent of QIZ goods, the program is obviously of chief importance to Egyptian producers in these sectors.

Overall, however, the United States is not a significant market for Egyptian exports. Egypt's 2011 total exports (QIZ plus all other) to the United States accounted for 6.3 percent of Egypt's trade (Table 4). Egypt's QIZ exports to the United States represented only 3.3 percent of total Egyptian exports in 2011. Egypt's most significant trade partners are Italy, India, and Saudi Arabia, which together account for 22 percent of Egypt's exports.

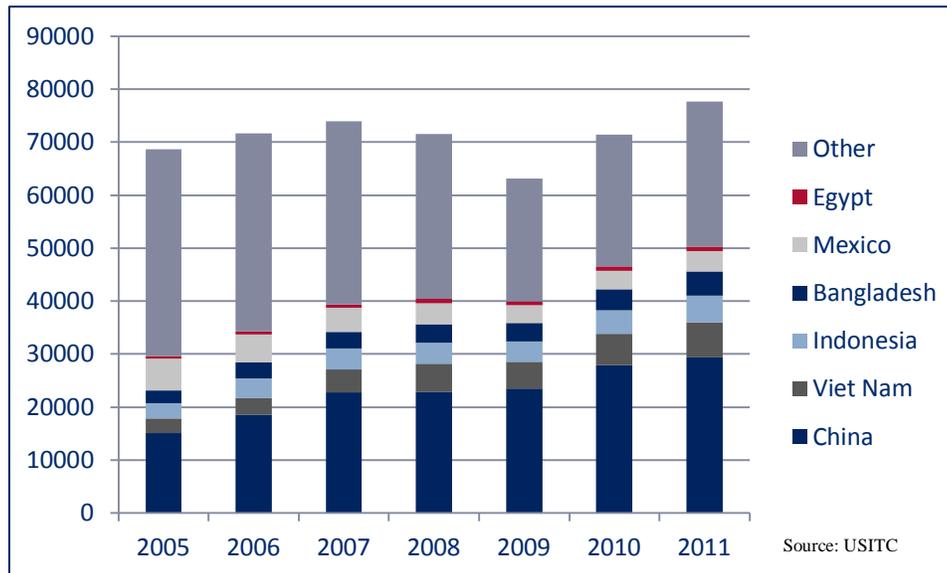
Table 4: Summary of Egypt's Exports to the World and U.S.

	Egypt's Exports in millions USD			Egypt's Exports to U.S. as % of Total Egypt Exports, 2011	U.S. Imports from Egypt as % of Total U.S. Imports (2.23 trillion USD)
	2009	2010	2011		
To World	24,182 .0	26,331. 8	30,782 .0		
To the United States, Total	2,077. 7	2,202.7	1,925. 9	6.3%	0.9%
To the United States, under QIZ	848.1	956.0	1,009. 0	3.3%	0.045%

Source: UN Comtrade Data and U.S. Department of Commerce Data

Moreover, when compared to all goods imported into the United States in 2011 (\$2.2 trillion), the share from Egypt's QIZs is miniscule. Egypt's total exports (\$1.9 billion) to the United States in 2011 accounted for 0.9 percent of all U.S. imports that year, and imports under the QIZ preference program were half of that (0.045%) – less than one half of one percent. From the U.S. perspective in the apparel sector, China, Viet Nam, Indonesia, Mexico and Bangladesh represent the five most significant suppliers of apparel, while Egypt ranks 17th on the list. Figure 4 shows the top five suppliers to the U.S. market, Egypt and all other suppliers.

Figure 4: Major Suppliers of the U.S. Market, 2005-2011 (in thousands of USD)



A Look at Some Specific Product Categories

Given the relatively small percentage that imports of QIZ products from Egypt represent to total U.S. apparel imports, it is unlikely that even a significant increase in such products would have a material impact on U.S. production of RMG and textiles.

Stiffening international competition arising from 2005 expiration of the Agreement on Textiles and Clothing and the concurrent ascendance in the world market of powerhouse producers such as China led to the end of most U.S.-based production of RMG production before 2005, the first full year of Egypt's initial QIZ designation. By that year, most U.S. apparel production had already located overseas.

Table 5 below shows the top 20 products by six-digit HS Codes imported into the United States from the QIZs in Egypt. The 20 product lines represent 84 percent of all Egyptian QIZ exports to the United States. In fourteen of the categories, Egyptian QIZ imports represent less than 3 percent of all U.S. imports. In only six categories do Egyptian QIZ exports to the United States account for more than 3 percent of all U.S. imports of these goods from anywhere in the world. Four of those six categories are "woven trousers," of cotton, wool, or man-made fibers, and "knitted trousers." One is man-made fiber carpets. The leading one, in terms of Egyptian penetration of the U.S. market, is man-made fiber knitted underpants for men and boys. In no product category is Egypt the leading supplier to the United States (Table 5) and in only two cases (carpets from man-made fibers and M/B underpants from man-made fibers) is Egypt among the top three suppliers to the United States.

Table 5: Top Twenty Imports (HS 6 digit) from Egypt into the United States in 2011

Product Code	Description	Egypt QIZ Imports to the U.S.	Total U.S. Imports	QIZ Egypt as % of Total U.S. Imports
--- (millions \$USD) ---				
Trousers				
620342	M/B cotton woven trousers, etc.	\$209.4	\$5,533.0	3.8%
620462	W/G cotton woven trousers	\$170.0	\$5,075.6	3.4%
610343	M/B knitted synthetic trousers	\$54.5	\$733.3	7.4%
610462	W/G's cotton knitted trousers	\$29.4	\$1,469.4	2.0%
620463	W/G's synthetic fiber woven trousers	\$22.1	\$984.2	2.2%
610463	W/G's synthetic fiber knitted trousers	\$15.3	\$598.5	2.6%
620343	M/B's synthetic woven trousers	\$14.9	\$1,216.4	1.2%
620341	M/B's wool woven trousers	\$10.2	\$257.6	3.9%
Sweaters				
611030	Knitted sweaters of manmade fibers	\$58.8	\$4,158.9	1.4%
611020	Knitted cotton sweaters	\$57.8	\$9,139.5	0.6%
Undergarments				
610712	M/B's manmade fiber knitted underpants	\$13.4	\$104.0	12.9%
610711	M/B's cotton knitted underpants	\$11.0	\$819.4	1.3%
Other Garments				
610910	Cotton t-shirts	\$37.8	\$4,224.2	0.9%
620520	M/B's cotton woven shirts	\$29.7	\$2,968.9	1.0%
610510	M/B's cotton knitted shirts	\$25.7	\$1,635.6	1.6%
610990	T-shirts, knitted of other materials	\$22.8	\$1,026.8	2.2%
Home Textiles				
630260	Cotton towels	\$15.1	\$1,702.5	0.9%
570242	Manmade fiber carpets	\$11.1	\$319.1	3.5%
630231	Cotton woven bed linen	\$10.0	\$1,550.9	0.6%
Other				
290511	Methanol	\$26.0	\$1,694.8	1.5%
Top 20	Sub-total	\$845.0	\$45,212.5	1.87%

Note: M/B = Men's/Boys'; W/G = Women's/Girls'

Source: US Department of Commerce Dataweb

Table 6 lays out the top 20 categories of QIZ exports from Egypt to the United States. It focuses on the incremental growth in imports from QIZs compared to total incremental change in US imports for the same product categories. The calculations in this table are used to discover those categories in which total imports into the United States have increased at least 15 percent since 2005 and in which growth in QIZ exports from Egypt represent resents more than 25 percent of the total increase by value of imports for those categories.

Table 6: Share of Egypt's Top 20 QIZ Exports in Total Growth in U.S. Imports, 2005-2011

* The product rows highlighted represent those where US imports have increased by more than 15% from 2005 to 2011 and imports from Egypt's QIZ's represent at least 25% of the increase by dollar value.

HS Code	Description	Egypt's QIZ Exports to the US --- (In millions of \$USD) ---			US Imports from all countries same HSC --- (In millions of \$USD) ---			Percent Change in US Imports	Egypt QIZ Share of Increase in US Imports
		2005	2011	Increase/D ecrease	2005	2011	Increase/ Decrease		
620342	M/B cotton woven trousers, etc	61	209	148	5,110	5,533	423	8.3%	35%
620462	W/G cotton woven trousers	52	170	119	5,931	5,076	-855	-14.4%	NA
611030	Knitted sweaters of manmade fibers	8	59	50	3,334	4,159	825	24.8%	6%
611020	Knitted cotton sweaters	30	58	28	7,593	9,139	1,547	20.4%	2%
610343	M/B knitted synthetic trousers	3	55	52	525	733	208	39.6%	25%
610910	Cotton t-shirts	7	38	31	3,424	4,224	800	23.4%	4%
620520	M/B's cotton woven shirts	3	30	26	2,663	2,969	306	11.5%	9%
610462	W/G's cotton knitted trousers	3	29	26	950	1,469	519	54.6%	5%
290511	Methanol	0	26	26	1,379	1,695	316	22.9%	8%
610510	M/B's cotton knitted shirts T-shirts, knitted of other materials	13	26	13	1,548	1,636	87	5.6%	15%
610990	W/G's synthetic fiber woven trousers	2	22	20	1,052	984	-68	-6.4%	-30%
610463	W/G's synthetic fiber knitted trousers	4	15	11	414	598	184	44.5%	6%
630260	Cotton towels	0	15	15	1,292	1,702	411	31.8%	4%
620343	M/B's synthetic woven trousers	0	15	15	1,267	1,216	-51	-4.0%	-29%
610712	M/B's manmade fiber knitted underpants	0	13	13	76	104	28	37.2%	47%
570242	Manmade fiber Carpets	0	11	11	244	319	75	30.7%	15%
610711	M/B's cotton knitted underpants	2	11	9	782	819	38	4.8%	25%
620341	M/B's wool woven trousers	0	10	10	300	258	-42	-14.1%	-23%
630231	Cotton woven bed linen	11	10	-1	1,110	1,551	441	39.8%	0%
	Sub-total	200	845	645	39,678	45,212	5,535	13.9%	12%

Sources: Compiled from tariff and trade data from the U.S. Department of Commerce and the U.S. International Trade Commission.

This calculation gives us a view of the product categories in which Egyptian QIZ producers have concentrated and have succeeded in exporting to the U.S. market.⁷ The three highlighted rows in Table 6 show the only categories for which both those observations apply: M/B knitted synthetic trousers (610343); M/B manmade fiber knitted underpants (610712); and manmade fiber carpets (570242). These three categories merit closer examination about the possible impact of QIZ imports on U.S. producers and employment. However, in total they represented less than \$80 million by value of all QIZ imports in 2011, not an amount large enough in itself to cause concern. As for all the other product categories, either total imports into the United States have not risen significantly (by less than 15%), or, in some cases, have actually declined since 2005, or Egypt's share of any increase has not been significant (larger than 25%).

⁷ We can define this as an indicator of the revealed comparative advantage that Egypt may possess for particular product categories.

WOVEN AND KNITTED TROUSERS

This section takes a closer look not just at these three product categories but also at the other three for which QIZ exports represent at least 3 percent of U.S. total imports in that category – all of which are woven trousers. Because four of the HS code categories represent variations of woven trousers, we will discuss that grouping first, followed by the remaining two categories, carpets and underpants. Table 7 below provides a summary of these six products, their rank among all U.S. suppliers and the major supplier in each category.

Table 7: Top Six QIZ Product Categories in 2011 that Represent More than 3% of U.S. Imports

(in millions USD)

Product Code	Description	Egypt QIZ Imports to the U.S.	Total U.S. Imports	QIZ Egypt as % of Total U.S. Imports	Egypt's Rank among all U.S. Import Suppliers	#1 Supplier to the U.S. Market	Import Value from #1 Supplier to the U.S.
620342	M/B cotton woven trousers, etc.	\$209.4	\$5,533.0	3.8%	6	Mexico	\$1,241
620462	W/G cotton woven trousers	\$170.0	\$5,075.6	3.4%	7	China	\$2,092
610343	M/B knitted synthetic trousers	\$54.5	\$733.3	7.4%	5	China	\$128
610712	M/B's manmade fiber knitted underpants	\$13.4	\$104.0	12.9%	2	China	\$27
570242	Manmade fiber carpets	\$11.1	\$319.1	3.5%	3	Turkey	\$108
620341	M/B's wool woven trousers	\$10.2	\$257.6	3.9%	9	China	\$38

Source: U.S. Department of Commerce USITC Dataweb

M/B cotton woven trousers (HS code 620342)

This category includes cotton denim pants or jeans for men and boys. The United States imported \$5.5 billion worth of trousers in this category in 2011. Egypt's QIZ exporters supplied \$209 million (3.8%) of that. Mexico was the largest supplier with \$1.2 billion. This is a growth product category for Egypt. Egypt's QIZ exports in this category have more than doubled since the beginning of QIZ in 2005 and Egypt's share of U.S. imports has risen from 1.2 percent in 2005 to 3.8 percent in 2011. During that time total U.S. imports have risen by 8 percent from \$5.2 billion in 2005 to \$5.5 billion in 2011. Egypt's increase accounts for 35 percent of the total increase, but still only 17 percent of the value of jeans products that entered from Mexico.

W/G cotton woven trousers (HS code 620462)

This is the cotton pants, slacks, and jeans category for women and girls. The United States imported \$5.9 billion worth of RMG in this category in 2005 and \$5.1 billion in 2011, a decrease of \$800 million or 14%. In that period, Egypt's QIZ exports in this category rose from \$51 million to \$170 million, making it 7th among U.S. suppliers in 2011. China is the leading source for the United States of this product, providing \$2.1 billion (41%) of all trousers in this category

to the U.S. market in 2011, 12 times the dollar value of QIZ imports from Egypt. The dominance of China in this category plus the \$800 million decrease in total U.S. imports in this category from 2005 to 2011, suggest that that any impact from QIZ imports on U.S. producers has been marginal. From the perspective of U.S. producers the most important fact is that total imports have declined by \$800 million (14%) since 2005, even if the share of imports from Egypt's QIZ has grown slightly to 3.3%.

M/B knitted synthetic trousers (HS code 610343)

In 2011, the United States imported \$733 million of RMG in this category, up from \$525 million in 2005. Egypt's QIZ producers supplied \$54.5 million (7.3%) in 2011, up from \$2.9 million when QIZs first opened in 2005. China is also the U.S.' largest supplier of knitted synthetic trousers, accounting for 17.5 percent of all U.S. imports in this category in 2011. Egypt is the 5th largest supplier, supplying about 42 percent of the amount from China. Total U.S. imports in this category of imports grew by \$208 million from 2005 to 2011, and Egypt's QIZ's exports grew by \$52 million accounting for 25 percent of the total growth over the same period. While the amounts here are small, knitted synthetic trousers are one category where additional research would be helpful in determining if QIZ imports are having an impact on any remaining U.S. producers.

M/B wool woven trousers (HS code 620341)

The United States imported \$258 million worth of men's and boys' woolen woven trousers in 2011, down slightly from \$300 million in 2005. Egypt's QIZ exports accounted for only \$0.3 million (< 0.1%) of total US imports in 2005 and \$10.2 million (3.9%) in 2011. Egypt's increase came as total imports into the United States were decreasing, suggesting it has a competitive product. Egypt is the 9th largest supplier of this category of RMG to the United States. China, the largest, supplied \$38 million in 2011.

MANMADE FIBER CARPETS (HS CODE 570242)

U.S. imports of QIZ products in this category totaled \$11.1 million in 2011, 3.5 percent by value of all manmade carpets imported in the United States in that year (\$319 million). Egypt was the 3rd largest source of this product for U.S. imports. Turkey was the largest supplier to the U.S. market, supplying \$108 million in 2011, roughly 10 times the dollar value imported from Egypt.

MEN AND BOYS MANMADE FIBER KNITTED UNDERWEAR (HS CODE 610712)

Egypt is the second largest supplier in this category to the United States, supplying \$13.4 million or 12.9 percent of all U.S. imports (\$104 million) in this category 2011. This category has been a significant growth area for Egypt's exports, given that it only exported \$65,000 in this category in 2005. China, the number one source, exported \$27 million to the United States in 2011.

Analysis Prepared by Peterson International Institute of Economics

In May 2012, trade economists from the Peterson Institute of International Economics (IIE) presented a paper advocating expansion of QIZ zones in Egypt as a practical bilateral policy tool that the United States could employ to boost the Egyptian economy without doing material damage to U.S. economic interests. The report estimated that a QIZ expansion program could help boost Egyptian exports by \$436 million. The report also estimated that most of those exports would come at the expense of China – that Egyptian QIZ exports could displace as much as \$122 million of current U.S. imports from China. QIZ exports would displace those of other countries as well, with Viet Nam, Indonesia, Bangladesh, and Mexico, the next largest suppliers of apparel to the United States in 2011, expected to lose as much as \$148 million combined.

The report suggested that there could be some collateral losses felt by U.S. manufacturers in the same categories as Egyptian QIZ exports. However their estimate of impact on the United States was discussed only as an assumption that impact would range between five and ten percent of the increased exports expected from an expansion of QIZ program in Egypt. The paper's argument was that possible lost production from U.S. producers ranging from \$22 to \$44 million would be a reasonable cost to support a program that generated \$436 million in export gains (and jobs) in Egypt.

Potential Impact of Egypt's QIZ Expansion on U.S. Industry

The analysis presented in this paper, which takes a closer look at specific product categories, suggests that the impact upon U.S. producers would be less than the amounts assumed by Peterson IIE. In fact, evidence suggests that for the categories of any scale (i.e., that supply more than 3 percent of U.S. total imports) most impact from imports already had been felt by 2005. Remaining/surviving U.S. producers have found market niches in which they are able to compete with imports, whether from China or Egypt's QIZs.

A number of additional sources confirm this suggestion. For example, according to the U.S. Census Bureau's Annual Survey of Manufacturers, employment in the U.S. textile mills, textile product mills, and apparel manufacturers dropped by 34 percent between 2000 and 2010, from 889,700 to 585,200 jobs. The fall-off was most severe in the apparel sector, a decrease of more than 300,000 jobs between 2000 and 2010, while employment in textile mills has actually risen slightly.

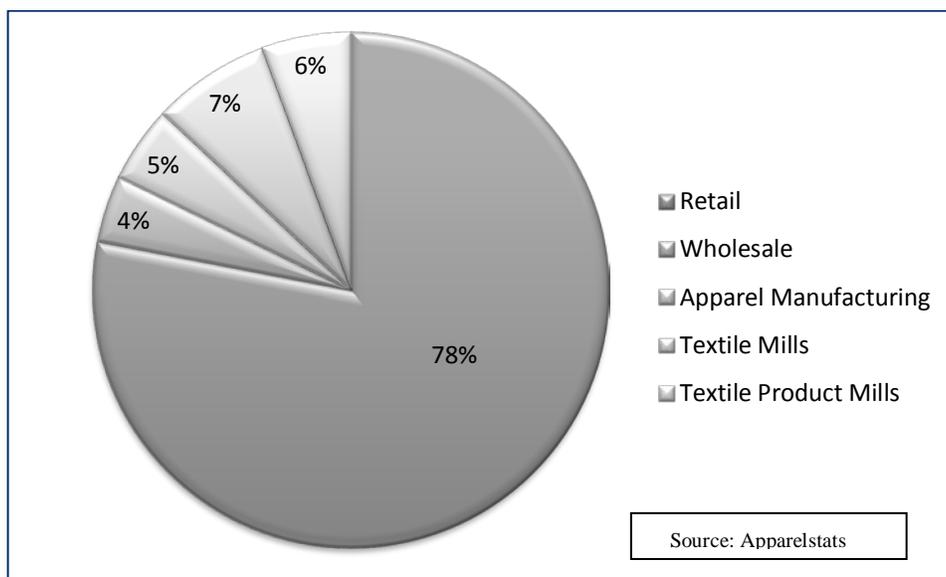
To make reasonable judgment about employment impact, it is helpful to look at the apparel industry as a whole, including retail and wholesale employment as well as manufacturing. From this perspective it is easy to see that the vast majority of employment in the sector is in retail. In 2010, the retail portion of the sector employed 2.5 million people, 78 percent of total apparel employment. Table 8 illustrates the evolution of U.S. textile and apparel industry employment since 2000, while Figure 5 displays division of employment between the different textile and apparel employment categories.

Table 8: U.S. Textile & Apparel Industry Employment Trends, 2000-2010
(in thousands of persons employed)

	2000	2005	2010
Retail	2,564.1	2,615.8	2,556.60
Wholesale	163.1	147.5	138.0
Apparel Manufacturing	483.5	250.5	157.7
Textile Mills	213.3	245.2	244.4
Textile Product Mills	192.9	179.7	183.2
Total	3,616.9	3,438.7	3,279.9

Source: U.S. Bureau of Labor/ApparelStats 2011⁸

Figure 5: U.S. Textile & Apparel Industry Employment, 2010⁹



Shipment data give us another indicator of the extent of global adjustments that have already worked their way through the textile and apparel industry in the United States. From 1997 to

⁸ American Apparel and Footwear Association, *Apparelstats 2011* (Arlington, VA: AAFA, February 2012).

⁹ Textile mills transform a basic fiber (natural or synthetic) into a product, such as yarn or fabric that is further manufactured into usable item. Textile Product Mills make textile products that are cut and sew, like sheets and towels.

2008, the value of shipments from domestic manufacturers located in the United States (i.e., the value of production, ex-factory) plummeted (Table 9). In its 2012 report, the American Apparel and Footwear Association notes that U.S. domestic production today accounts for just 2 percent of total U.S. apparel consumption.¹⁰

Table 9: U.S. Apparel Industry Production Trends

	Value of Shipments (in million USD)	
	1997	2008
Textile Mills	58,707	19,596
Textile Product Mills	31,052	26,630
Apparel Manufacturers	68,018	31,845
TOTAL	157,777	78,071

Source: U.S. Census Annual Survey of Manufacturers

Apparel employment in the specific categories of Egyptian competition is reflective of the overall decrease in U.S. apparel employment. Employment dropped significantly in these categories of mills and manufacturers (Table 10).

Table 10: U.S. Trends in Employment in Key Egyptian Export Categories, 2000-2009

NAICS Code	Description	2000	2005	2009
315192	Underwear and nightwear knitting mills	4,594	1,432	178
315224	Men's and boys' cut and sew trouser, slack, and jean manufacturing	26,693	7,240	977
315239	Women's and girls' cut and sew other outerwear manufacturing	44,347	23,224	5,976
<i>Source: Country Business Patterns, U.S. Census</i>				

These enormous, global changes underway for more than a decade have already been factored into strategic decisions made by the U.S. apparel industry and are incorporated in public industry positions presented this year. In March 2012, the American Apparel and Footwear Association (AAFA), testifying before the Senate Finance Committee in support of the President's trade agenda, stated that it has a positive attitude towards imports, and promotes free trade in textiles and apparel¹¹ due to the benefits for American industry, retailers, and consumers. In April 2012, the AAFA called for a reduction in trade barriers on textiles and apparel to open up new markets

¹⁰ AAFA, "Apparelstats 2011" (Arlington, VA, February 2012).

¹¹ AAFA. "We wear jobs." Written testimony submitted by the AAFA before the Senate Finance Committee on The President's 2012 Trade Agenda. March 7, 2012.
<https://www.wewear.org/assets/1/7/030712tradesfctestimony.pdf>

for U.S. products.¹² Given the current structure of the U.S. and global markets, the American industry is heavily dependent on imports, and making imports cheaper benefits U.S. apparel retailers, where the majority of U.S. employment is found.

The Impact on U.S. Exports

Another data item that can be taken into account in assessing impacts on U.S. industry is U.S. exports in the same categories of Egypt's QIZ exports. The value of U.S. exports in these categories is small. Table 11 shows U.S. exports in Egypt's six major QIZ product categories. The only product of significance to the U.S. apparel export market is men's and boys' cotton woven trousers, of which U.S. exports are \$142 million. However, the majority (53%) of these exports are destined for Mexico and Canada, where they are further washed, dyed, or embellished, and then re-imported into the U.S. under special preference programs (NAFTA and 807 program) (see the text box below).

Table 11: Total % Change (2011/2005) in U.S. Exports for same Top 6 QIZ Product Categories

		U.S.'s Exports that match Egypt's Top 20 QIZ exports		Percentage Change in U.S. exports
		--- (In millions of \$USD) ---		
HS Code	Description	2005	2011	
620342	M/B cotton woven trousers	\$223.5	\$141.8	-36.60%
620462	W/G cotton woven trousers	\$131.0	\$175.6	34.10%
610343	M/B knitted synthetic trousers	\$16.8	\$5.0	-70.40%
570242	Manmade fiber carpets	\$15.4	\$21.5	40.00%
610712	M/B manmade fiber knitted underpants	\$4.0	\$1.9	-51.80%
620341	M/B wool woven trousers	\$0.719	\$1.4	94.00%

Source: U.S. Department of Commerce USITC Dataweb

¹² "AAFA Calls for Reductions of Global Trade Barriers." 2 April 2012. <https://www.wewear.org/aafa-calls-for-reductions-of-global-trade-barriers/?CategoryId=2>

Shoppers Shell Out More for Designer Denim, Lured by 'Made in USA'

- Christina Brinkely, *WSJ.com*

Los Angeles is becoming known as the global capital of so-called premium denim—one of the few areas of fashion that remains largely American-made.

It seemed a few years ago that the high end of the denim business was doomed, with the financial crisis killing many consumers' appetites for expensive jeans. However, the details are making different jeans brands stand out, through the pockets, rivets, special washes and distressing methods. These methods can be particularly expensive when done in the U.S., where factories must meet more stringent environmental and labor standards than in many low-cost nations. US manufacturers will ship the jeans to other countries such as Mexico, where the embellishing can be done more cheaply.

Different segments of the American industry benefit: most premium jeans' cotton denim fabric comes from a high-end denim fabric mill in Greensboro, N.C, which uses old shuttles to weave fabric with slight irregularities that give fabric a character that modern looms lack.

To be produced domestically, jeans have to be priced at "\$200-plus," says Shelda Hartwell-Hale, a vice president at Directives West, an L.A.-based division of fashion consulting firm Doneger Group.

Possible Extensions of Analysis

The analysis in the memorandum can be extended and improved if greater accuracy is warranted and time and resources permit. Next steps for deepening and extending the analysis might include the following:

- Update the data presented from the Annual Survey of Manufactures and provide more detailed product category data;
- Conduct interviews with industry associations in the United States (American Apparel Footwear Association, U.S. Association of Importers of Textiles & Apparel).