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# Scoping Study of Egypt's Qualifying Industrial Zones: Trip Report

PREPARED FOR THE QUALIFYING INDUSTRIAL ZONE UNIT OF EGYPT'S  
MINISTRY OF TRADE AND INDUSTRY

September 2008

This publication was produced for review by the United States Agency for International Development. It was prepared by Lynn Salinger.

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MINISTRY OF TRADE AND INDUSTRY**

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# Abbreviations

CAPMAS	Central Agency for Public Mobilization and Statistics
CBP	U.S. Customs and Border Protection
CMT	Cut, make, and trim
EU	European Union
FTA	Free trade agreement
GSP	Generalized System of Preferences
HS	Harmonized System
IMC	Industrial Modernization Center
ITUC	International Trade Union Confederation
LE	Egyptian pound
MENA	Middle East and North Africa
MTI	Ministry of Trade and Industry
OBM	Original brand manufacturer
ODM	Original design manufacturer
OEM	Original equipment manufacturer
OPT	Outward processing trade
PTA	Preferential trade arrangement
QIZ	Qualifying Industrial Zone
RMG	Ready-made garments
TAPRII	Technical Assistance to Policy Reform II project
USAID	United States Agency for International Development
USTR	United States Trade Representative
WTO	World Trade Organization

## 1. Scope of Work

Because of the importance of exports to Egypt and concerns that exports under Egypt's Qualifying Industrial Zones (QIZ) protocol to the U.S. have tapered off in 2008, the Ministry of Trade and Industry's (MTI) QIZ Unit asked USAID's Technical Assistance to Policy Reform II (TAPRII) project to conduct a scoping study as a first step in examining the potential for increasing the competitiveness of Egypt's QIZ producers and diversifying QIZ exports beyond textile products.<sup>1</sup>

To undertake this study, Ms. Lynn Salinger, international economist and garment sector specialist with Nathan Associates Inc., traveled to Cairo from August 9-14, 2008, where she met with representatives of Egypt's QIZ sector, business community, and the MTI to:

- Examine prospects for diversification of QIZ exports from textiles into non-textile products.
- Analyze export trends to the major markets of the US and EU over the past three years and through the most recent quarter of 2008.
- Prepare a draft survey instrument to be administered in a subsequent phase of work to manufacturers/exporters to identify:
  - Sources of export growth over the past two years (unused capacity, shifting of sales from the domestic market, investment in new capacity, additional hiring, subcontracting, etc.).
  - How individual firms could best increase their exports in the immediate future (and, to a lesser extent, in the medium term).
  - Factors throughout the value chain that represent the most significant barriers to increased competitiveness and export growth.
- Propose a survey implementation and analysis plan.

A rapid appraisal, or "scoping study," of this kind by definition seeks to cover wide ground in a limited timeframe. In this case, coverage was sought of key players in the textile/garments value-chain in order to gain an appreciation for the breadth of products covered by the industry, best practices by industry leaders, and challenges faced even by these leaders as they seek to expand exports.

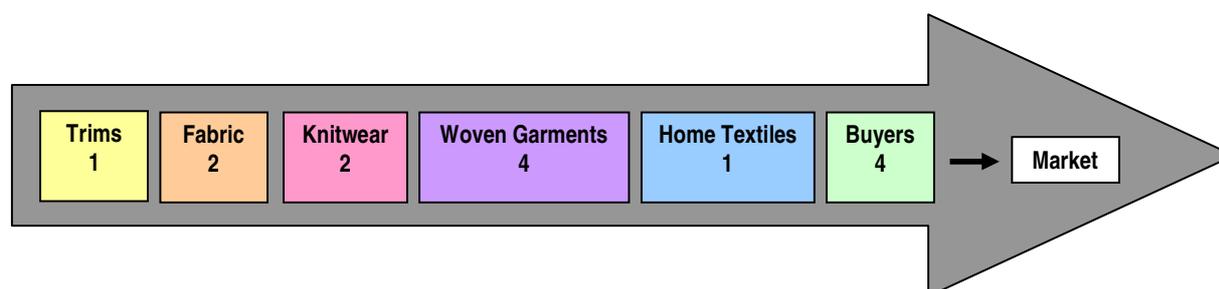
Thanks to the Ministry of Trade and Industry's QIZ Unit, without whose outstanding support this exercise could not have been successfully undertaken in such a short time, constructive dialogues were held with key players in the industry, including companies that spanned the entire value chain (Figure 1). We spoke with nine companies:<sup>2</sup> manufacturers of lace, performance knits, high-quality woven shirting fabric, vertically integrated knitwear, woven bottom's, men's shirts, tailored suits, and floor coverings, as well as buying agents for a number of U.S. brand and private label clothing companies. All are located within an hour's drive of downtown Cairo. A full list of meetings held is included in Annex B.

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<sup>1</sup> As is the convention in the industry, the terms "textiles" and "textile products" may refer to fabric only, or may mean fiber, fabric, and apparel. We will use "textiles" when we refer to the entire value chain, and "garments" (or apparel or clothing, all synonyms) when referring to final goods only.

<sup>2</sup> One company we visited manufactures both trims (in this case, laces, although "trims" can refer to threads, buttons, zippers, other closures, pipings, laces, and so forth) and fabric.

**Figure 1: Interview Sample – Number of Interviews Per Value Chain Segment**



In order to triangulate information from a number of sources, a standard set of issues was reviewed with each informant regarding the company’s decision to export, export market, regulatory requirements for export, relationships with buyers, organization of factory production, labor supply and demand, wages, workplace relations, productivity measurement, workforce development, monitoring and inspection of working conditions, global value-chain integration, industrial infrastructure, logistics, government services, collaboration or competition with foreign investment, broader risks/constraints, and areas for possible assistance from the Ministry of Trade. In addition, we asked about prospects for diversification of export products out of ready-made garments (RMG) for QIZ export.

## 2. Context for the Scoping Study

Egypt is a relatively small trading partner of the U.S. Averaged over the last 3½ years, the value of imports from Egypt represented just 0.12% of total U.S. imports (averaged, 2005 through early 2008). Textiles figure prominently among the leading products imported from Egypt, however, with carpets and floor coverings at the top of the list; over 5% of U.S. global imports of carpets and floor coverings come from Egypt. Woven and knit apparel also figure among Egypt’s top five export categories to the U.S.; the latter account for 0.96% and 0.74%, respectively, of total U.S. woven and knit apparel imports (averaged, 2005 through early 2008).

**Table 1: U.S. Leading Imports from Egypt**

(US \$ millions)	2005		2006		2007		March 2008 YTD	
	World	Egypt	World	Egypt	World	Egypt	World	Egypt
All Commodities	1,673,454.5	2,091.2	1,853,938.5	2,395.8	1,953,698.8	2,379.5	502,600.2	476.9
57 Carpets And Other Textile Floor Coverings	2,000.0	96.4	2,133.3	106.8	2,118.3	108.4	501.8	26.1
31 Fertilizers	3,748.9	20.1	3,471.3	19.6	5,007.1	170.2	1,981.1	32.7
52 Cotton, Including Yarn And Woven Fabric Thereof	1,655.3	26.3	1,521.9	22.0	1,321.4	11.8	290.9	2.3
62 Apparel Articles And Accessories, Not Knit Etc.	37,520.2	268.2	37,860.5	356.1	37,603.7	400.8	9,004.2	99.8
61 Apparel Articles And Accessories, Knit Or Crochet	33,290.4	176.1	35,531.8	268.9	37,961.0	296.5	8,018.2	71.0

	Egypt's Market Share			
	2005	2006	2007	March 2008 YTD
All Commodities	0.12%	0.13%	0.12%	0.09%
57 Carpets And Other Textile Floor Coverings	4.82%	5.01%	5.12%	5.20%
31 Fertilizers	0.54%	0.57%	3.40%	1.65%
52 Cotton, Including Yarn And Woven Fabric Thereof	1.59%	1.44%	0.89%	0.78%
62 Apparel Articles And Accessories, Not Knit Etc.	0.71%	0.94%	1.07%	1.11%
61 Apparel Articles And Accessories, Knit Or Crochet	0.53%	0.76%	0.78%	0.88%

Source: USATradeOnline, accessed June 2008

Egypt's access to the U.S. market was improved markedly in 2004 by the designation by the U.S. Trade Representative of Egyptian Qualifying Industrial Zones (QIZs). The designation was made in response to a joint request by the governments of Egypt and Israel, which signed a QIZ protocol in December 2004, to the United States. The QIZ initiative originated in the U.S. Congress, which in 1996 had authorized their establishment through an amendment to the implementing legislation for the U.S.-Israel Free Trade Agreement (FTA). The QIZ legislation empowers the President to grant duty-free status to goods produced in QIZs, an authority that was subsequently delegated to the U.S. Trade Representative (USTR).<sup>3</sup> The legislation defines a QIZ as a zone established by either Egypt or Jordan in cooperation with Israel.

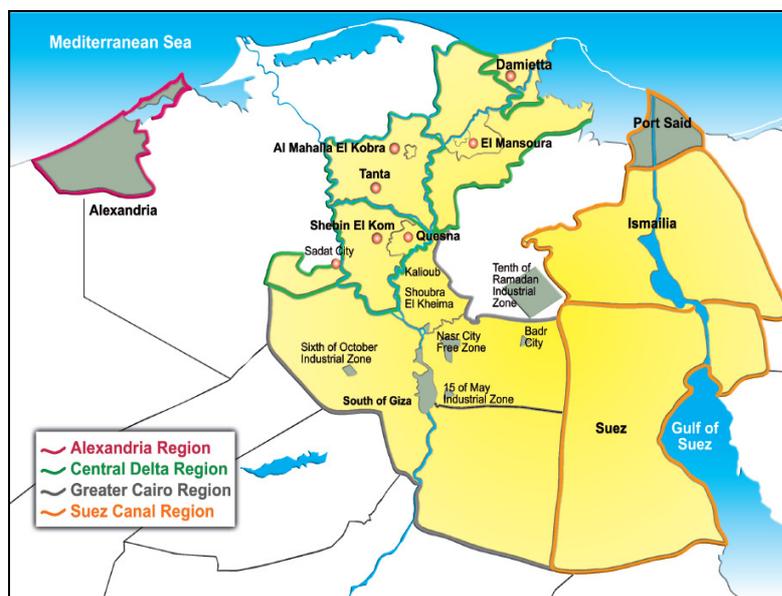
To qualify for duty-free treatment into the U.S., QIZ goods must contain a minimum percentage of Israeli input. Originally set at 11.7 percent, the minimum Israeli content for Jordan QIZ goods was lowered to 8 percent in 2004 (7 percent for high-tech products)<sup>4</sup> and for Egypt QIZ goods to 10.5 percent in January 2008. QIZ goods may also qualify for duty-free treatment if Egypt, Jordan and Israel each contribute and maintain at least 20% of total costs, which may include originating materials, wages and salaries, design, research and development, depreciation of capital investment, and overhead.

To date, USTR has designated four geographic areas in Lower Egypt (i.e. areas adjacent to the lower Nile River) as QIZs. They are Alexandria, Central Delta, Greater Cairo, and the Suez Canal (see map below). These zones encompass Egypt's main port of Alexandria, cleared as a U.S. Container Security Initiative port, as well as the Mediterranean ports of Damietta and Port Said. From Cairo to either Alexandria or Port Said is a distance of about 220 miles. In their 2004 protocol Egypt and Israel established a Joint Committee which administers the QIZ program, including certifying which Egyptian companies are eligible to participate. Over 700 companies have been listed as QIZ eligible, of which 172 are located in Alexandria, 154 are in the Central Delta, 299 are located in and around Cairo, and 92 are in the Suez Canal Region (see table below). Of the 717 companies, 223 are actually exporting (QIZ Unit 2008).

<sup>3</sup> P.L. 104-234. The legislation also authorized duty free benefits for qualifying West Bank and Gaza goods.

<sup>4</sup> American Chamber of Commerce in Jordan, "Qualifying Industrial Zones Fact Sheet," July 2005.

**Figure 2: Diagram of Egypt's QIZ Regions**



Source: American Chamber of Commerce in Egypt (2006)

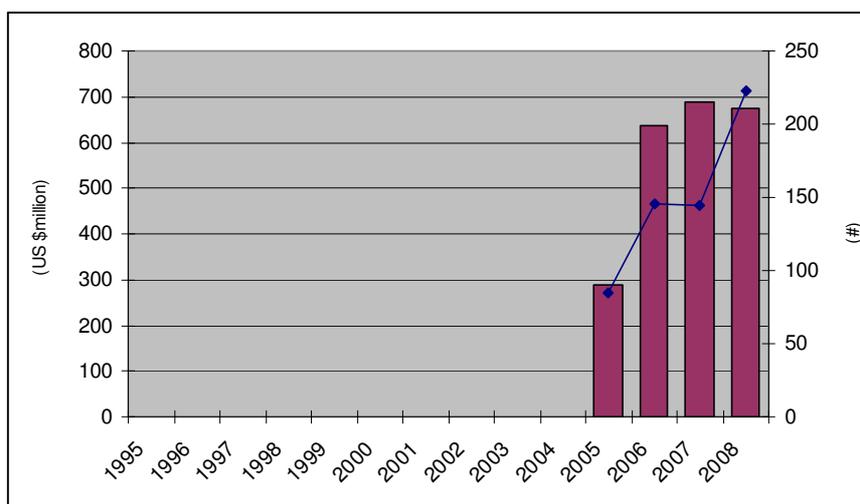
**Table 2: QIZ Listed Companies, By Location**

Industrial Zone	Qualifying Industrial Zone	# Companies
Alexandria	Alexandria	172
Dakahlia Governorate	Central Delta	4
Damietta Governorate	Central Delta	2
Gharbia Governorate	Central Delta	28
Monufia Governorate	Central Delta	14
El Obour	Greater Cairo	15
Shoubra El Kheima	Greater Cairo	91
10th of Ramadan	Greater Cairo	140
15th of May	Greater Cairo	11
6th of October	Greater Cairo	23
Badr City	Greater Cairo	4
Giza	Greater Cairo	10
Kalioub	Greater Cairo	12
Nasr City	Greater Cairo	43
Other Cairo	Greater Cairo	35
South Giza	Greater Cairo	21
Gesr Suez	Greater Cairo	10
Ismailia	Suez Canal	22
Port Said	Suez Canal	55
Suez	Suez Canal	5
<b>Total</b>		<b>717</b>

Source: QIZ Unit (June 2008)

Although any Egyptian manufactured product that meets the Israeli content requirement is eligible to be exported to the U.S. under the QIZ, virtually all of Egypt's QIZ exports today are textiles and textile products. As seen in Figure 3 the value of Egypt's QIZ exports to the U.S. grew sharply in the first year and a half after implementation, but has plateaued since 2006; 2008 figures are extrapolated from 1<sup>st</sup> quarter results. The number of Egyptian companies who have taken advantage of the QIZ stands at 223 as of mid-2008.

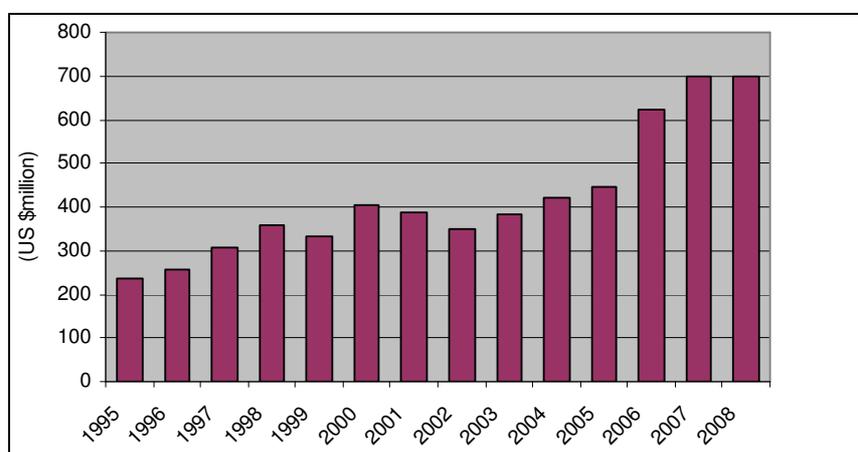
**Figure 3: Egypt's Total QIZ Exports to the U.S.**



Source: Ministry of Trade and Industry (MTI) (2008)

Note: Value of exports is measured on left-hand axis, number of QIZ exporting companies on right-hand axis

**Figure 4: U.S. Total Garments Imports From Egypt**



Source: USATradeOnline, accessed July 2008

The value of U.S. imports of garments (HS codes 61 and 62, combined) from Egypt (includes all goods, whether or not imported via the QIZ) grew steadily between 1995 and 2005, from \$235 million to \$434 million, as seen above.<sup>5</sup> In 2006, the year after QIZ implementation, the value of apparel imports from Egypt surged by 41%, and in 2007 imports grew by another 12%. The 2008 value is extrapolated from U.S. apparel import statistics through June 2008.

<sup>5</sup> Some discrepancy between values in Figures 3 and 4 is due to different reporting agencies and different measurements (between FOB on the Egyptian side and CIF on the U.S. side).

Comparing U.S. apparel import values in the first six months of 2008 with the first six months of 2007, the total value of apparel imports from Egypt fell by 1.6%. This actually is a positive outcome, when compared with a total decline in U.S. apparel imports of 4.0% over the same period. Other six-month, year-on-year performance comparisons are included in Table 3.

**Table 3: June 2008 Apparel Imports by Country, Year-to-Date Comparisons**

	YTD June 2008 Vs. YTD June 2007
World	-4.0%
China	-6.0%
Vietnam	+25.1%
Indonesia	+0.8%
Mexico	-11.6%
India	-2.0%
Bangladesh	+6.7%
Honduras	+3.0%
Cambodia	+2.1%
Thailand	-1.8%
El Salvador	+8.1%
Jordan	-15.3%
<b>Egypt</b>	<b>-1.6%</b>
Turkey	-29.5%
Morocco	+15.6%

Source: U.S. Department of Commerce, Office of Textiles and Apparel

Note: Lines shaded in green represent countries that have increased their value of apparel exports to the U.S.

Several possible explanations have been offered for the stalled performance of Egypt's QIZ exports. As the U.S. economy slows and the dollar weakens(), growth in U.S. demand for garments is stagnating or even declining. The strength of the euro relative to the U.S. dollar has also contributed to making the European market more attractive to Egyptian exporters than the U.S. With the expected elimination at the end of 2008 of U.S. safeguard measures on imports from China, greater competition into the U.S. market may further undercut Egypt's exports. These possible explanations are further explored below.

### Current State of Global Garment Trade

In order to understand the evolution of Egypt's garment exports to the U.S. under the QIZ arrangement, one has to understand the broader economic and commercial context in which this trade is taking place. As of August 2008, a number of factors affect global garment trade, *inter alia* the effects of multilateral quota elimination, the proliferation of preferential trade arrangements between and among strategic political and commercial partners, and global macroeconomic events.

First, it is by now well understood that the elimination of multilateral textile and apparel trade quotas on January 1<sup>st</sup>, 2005 under the terms of the World Trade Organization's Agreement on Textiles and Clothing led to a significant restructuring of world textile and garment supply.<sup>6</sup> The two tables below show the evolution of apparel (chapters 61 and 62, combined)

<sup>6</sup> Temporary safeguard limits, implemented by both the European Union (EU) and the U.S. against China's export of specific apparel categories in mid-2005, are due to be phased out at the end of 2008. The EU placed quantitative restrictions on t-shirts, pullovers, men's trousers, blouses, bed linens, dresses, brassieres, table linens, kitchen linens, and flax yarn. The U.S. imposed safeguards on cotton t-shirts, cotton trousers, woven shirts, underwear, synthetic fiber t-shirts for women and girls, and synthetic fiber trousers for women and girls.

market share for the leading suppliers into the U.S. and European markets, compared with Egypt and other key Middle East/North Africa suppliers.

**Table 4: Evolution of U.S. Apparel Market Share**

	1995	2008 (YTD July)	2008 Rank
<b>China</b>	10.2%	28.7%	1
<b>Vietnam</b>	0.0%	7.2%	2
<b>Indonesia</b>	3.4%	6.0%	3
<b>Mexico</b>	7.4%	5.9%	4
<b>India</b>	3.2%	5.0%	5
<b>Bangladesh</b>	3.1%	4.8%	6
<b>Honduras</b>	2.7%	3.7%	7
<b>Cambodia</b>	0.0%	3.4%	8
<b>Thailand</b>	3.0%	2.5%	9
<b>Hong Kong</b>	12.1%	2.3%	10
<b>Jordan</b>	0.0%	1.4%	19
<b>Egypt</b>	0.7%	1.0%	23
<b>Turkey</b>	1.8%	0.6%	27
<b>Morocco</b>	0.1%	0.1%	40

Source: U.S. Department of Commerce, Office of Textiles and Apparel

**Table 5: Evolution of EU Apparel Market Share**

	2002	2007	2007 Rank
<b>China</b>	22.3%	37.7%	1
<b>Turkey</b>	16.7%	15.4%	2
<b>Bangladesh</b>	6.5%	7.6%	3
<b>India</b>	5.5%	6.6%	4
<b>Tunisia</b>	6.9%	4.4%	5
<b>Morocco</b>	6.2%	4.4%	6
<b>Hong Kong</b>	5.6%	2.9%	7
<b>Indonesia</b>	3.5%	2.1%	8
<b>Vietnam</b>	1.7%	1.9%	9
<b>Sri Lanka</b>	1.8%	1.8%	10
<b>Pakistan</b>	1.8%	1.6%	
<b>Thailand</b>	2.1%	1.4%	
<b>Egypt</b>	0.6%	0.7%	16
<b>Jordan</b>	0%	0%	48

Source: EUROSTAT External Trade Statistics

Note: Import shares calculated as % of Extra27 Imports

Second, both the European Union and the United States have negotiated preferential access into their markets with supplier countries, particularly those that rim their markets, and encouraged regional cumulation. The EU has fully integrated several of its key Central Europe suppliers (Romania, Bulgaria) and in addition has negotiated Association Agreements with Mediterranean Rim countries, including Morocco, Algeria, Tunisia, Egypt, and Turkey, Lebanon, Israel, the Occupied Palestinian Territory, and Jordan. Around the Mediterranean, several regional free trade agreements (FTAs) have been negotiated, including the Agadir Agreement (Morocco, Algeria, Tunisia, Egypt) and bilateral agreements between Turkey and each of the four Agadir Agreement partners. With the entry into force

on June 1, 2004 of the EU Association Agreement with Egypt, all Egyptian industrial goods (including textiles) exported to the EU may enter on a duty-free basis.<sup>7</sup>

The United States has done similarly with Mexico (North America Free Trade Agreement, NAFTA), and Central American and Caribbean partners, i.e. Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua, through the Central America-Dominican Republic FTA (CAFTA-DR). Cumulation is allowed between CAFTA-DR and NAFTA countries, subject to certain limitations.<sup>8</sup> Delivery times from Mexico and Central America are obviously even shorter than they are from the Mediterranean, which keeps a stream of garment-related business in these countries, despite the heavy competition from Asia. FTAs also are in place between the U.S. and key North African and Middle East allies (albeit minimally important commercial partners), i.e. Israel, Jordan, Morocco, Oman, and Bahrain.<sup>9</sup>

In addition to the FTAs, non-reciprocal preferential trade arrangements (PTAs) with developing country partners allow for duty-free access through Everything But Arms (EBA) only and the Generalized System of Preferences (GSP, both Europe and U.S.). For apparel exports, excluded into the U.S. via GSP, a number of key regional arrangements provide for duty-free access, i.e. the Africa Growth and Opportunity Act, the Andean Trade Preference Act, and the Caribbean Trade Preference Act.

### **Earlier Analyses of Egypt's Textile and Garment Industry Competitiveness**

The competitiveness of Egypt's cotton, textiles, and apparel sectors was reviewed by several parties in anticipation of the conclusion of the Agreement on Textiles and Clothing's phase-out of multilateral trade quotas. These analyses, therefore, pre-date the origin of the QIZ arrangement with Israel and the United States. The findings of three key studies are summarized below.<sup>10</sup>

- **Changing International Trade Rules for Textiles and Apparel:** Minor (2004) assessed the impact of changing international textile and apparel trade rules on Egypt's market access. On the international policy front, Egypt was advised to pursue preferential trade opportunities to increase market opportunities for Egyptian exporters. Modernization of customs procedures was recommended to enable Egyptian companies to meet more stringent rules-of-origin requirements. Improvements in transport and telecommunications infrastructure were advised to strengthen the sector's linkages to global value chains. In order to promote textile exports, it was recommended that Egypt develop both a manufacturing strategy as well as a regional textiles and apparel trade strategy, featuring Egypt as a sourcing hub. Finally, to improve the ability of small and medium enterprises to compete with

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<sup>7</sup> The EU requires that goods exported from Egypt either be wholly obtained in Egypt, sufficiently processed in Egypt, or include cumulative origin from among qualifying partner countries. For the latter, known as "diagonal cumulation" in EU parlance, to apply, free trade agreements must exist between/among the participating countries, with identical rules of origin in all agreements. According to a presentation accessed from the EU's Egypt Delegation website, diagonal cumulation with Algeria, Cyprus, Israel, Jordan, Lebanon, Malta, Morocco, Syria, Tunisia, Turkey, and West Bank/Gaza is feasible under Protocol 4 of the Association Agreement. Preliminary agreement to further liberalize Egypt-EU trade in agriculture, processed agriculture goods, and fisheries products was reached by negotiators in July 2008.

<sup>8</sup> Cumulation is subject to a 100 million square meter equivalent annual cap, allocated among various products. Mexico and Canada also provide reciprocal benefits to the U.S. and CAFTA-DR countries, and have agreed to strengthen Customs cooperation. Mexico is also expected to amend its own FTAs with CAFTA-DR partners. See USTR (2007) and Morrissey (2008).

<sup>9</sup> FTAs or Trade Promotion Agreements have also been negotiated between the U.S. and Colombia, Peru, Panama, South Korea, and the United Arab Emirates. In some instances, these have been approved in the U.S. but not by the foreign legislature (Peru), but in most cases the agreements have not yet met with U.S. Congressional approval (and are unlikely to do so until after the U.S. elections in late 2008 and the new government takes its place in 2009).

<sup>10</sup> In addition to these, see also RATES (2005), Albaladejo (2006), and Context Co. Limited (2006).

large firms, clustering was recommended that would facilitate knowledge-sharing, access to capital, and partnering with international buyers.

- **Global Apparel and Textile Supply Chains and Industrial Upgrading:** Magder (2005) asks whether Egypt can take advantage of its location, which offers relatively short lead times into major buying markets. He observes that such locational advantages are especially profitable with regard to fashion, higher-quality apparel items whose selling seasons tend to be shorter. He questions whether Egyptian firms have the technical production skills, supporting infrastructure, logistics efficiency, or the marketing prowess to enter into these higher-end markets, and suggests that improved productivity within the factory will help as well to reduce lead times. Finally, he also suggests that the government of Egypt pay careful attention to the business environment so as to be able to attract significant foreign investment into the industry.
- **Morocco, Tunisia, Egypt, and Jordan after the End of the MFA:** A World Bank study (Pigato, Diop, et al. 2006) compared the post-MFA experiences of four Middle East and North Africa (MENA) countries, relative to Asian country experiences. The authors concluded that in order to improve their competitiveness, the MENA-4 countries will have to focus on lowering labor costs, increasing productivity, and improving access to cheap inputs, as well as further reducing tariff and non-tariff barriers, especially so as to be able to take advantage of diagonal cumulation into Europe, and enhancing their technical abilities to provide quick replenishment into European markets.

### 3. Egypt's Trade with U.S. & EU

A product-disaggregated sampling of Egypt's textile and garment trade with the U.S. and EU since 2005 is highlighted below. The product categories shown, identified by the Harmonized System (HS) code at the 4-digit level, represent those in which Egypt would appear to have a "revealed comparative advantage." This means that its market share for that particular product category is greater than Egypt's apparel market share overall (total of chapters 61 and 62).

Since the QIZ arrangement went into place, Egypt's share of the U.S. apparel market increased from 0.6% to 1.0%. However, in certain product categories, mostly men's and boys' clothing, Egypt's share has increased and now exceeds 1.0%. As stated earlier, Egypt's share of the U.S. carpets and floor coverings market is even higher, over 5%.

While Egypt's share of the EU-27 apparel market has remained stable at 0.7% over the same 3½ year period, the number of product categories for which Egyptian producers appear to have a revealed comparative advantage is even greater in the EU market, as noted in Table 6.

**Table 6: Evolution of Egypt's Apparel Products Trade with U.S. & EU**

	(Values, \$million or €million)				Market Share	
	2005	2006	2007	YTD May 2008	2005	2008 (U.S.) 2007 (EU)
<b>U.S.</b>					<b>0.6%</b>	<b>1.0%</b>
6103 Men's/boys' suits, ensembles, trousers, knitted	14.7	23.6	28.7	14.8	1.9%	4.6%
6203 Men's/boys' suits, ensembles, trousers, woven	118.5	168.2	195.8	89.6	1.4%	2.6%
6105 Men's/boys' shirts, knitted	21.9	43.3	47.0	24.0	1.2%	2.2%
6107 Men's/boys' undergarments, pajamas, knitted	8.0	11.2	15.4	7.1	0.7%	2.0%
6204 Women's/girls' suits, ensembles, trousers, woven	114.5	135.5	157.3	59.1	0.9%	1.1%
<b>EU-27</b>					<b>0.7%</b>	<b>0.7%</b>
6107 Men's/boys' briefs, pajamas, knitted	24.7	31.8	35.5		3.6%	3.9%
6105 Men's/boys' shirts, knitted	15.2	16.1	23.6		1.8%	2.2%
6103 Men's/boys' suits, ensembles, trousers, knitted	2.4	8.1	9.7		6.0%	1.8%
6108 Women's/girls' slips, briefs, pajamas, knitted	41.8	31.4	32.1		2.0%	1.7%
6203 Men's/boys' suits, ensembles, trousers, woven	67.0	71.9	86.0		0.7%	1.4%
6109 T-shirts, singlets, knitted	101.0	104.7	97.3		1.7%	1.3%
6207 Men's/boys' undergarments, pajamas, woven	2.0	2.6	2.8		1.6%	1.2%
6111 Babies' garments	8.4	12.3	9.3		1.6%	0.8%

Source: U.S. Department of Commerce, Office of Textiles and Apparel and EUROSTAT External Trade Statistics

Note: Values represent CIF values as reported on the import side by the U.S. and EU.

#### 4. Egypt's Textile and Ready-Made Garment Industry: Findings

##### Profile of Scoping Study Panel

The factories visited represented a diverse size range, from 300 to 14,000 employees. Most have been in existence for at least ten years, although a few were started decades ago. All but one are family-owned, run by founders or second-generation offspring of the original founders. Concentration of management and ownership was cited by a number of observers as a constraint to rapid modernization of factories and export growth.

Some of the companies are located in traditional neighborhoods, but most we visited have taken advantage of incentives to locate in public or private export processing or industrial zones.<sup>11</sup> Being located in a public export processing or industrial zone offers physical and

<sup>11</sup> Egypt's 1997 investment law created the possibility for two types of investment in Egypt, "Free Zone Investment" and "Inland Investment." Free Zones are considered to be exempt from customs boundaries, imports, monetary, and duties issues. Egypt has established ten free zones, providing access to land and equipped with facilities and infrastructure. "Private" free zones may also exist if suitable areas in the general free zones are unavailable, or if the project carries a high probability of polluting neighboring projects. In a private free zone, the investor finds his own location and pays the costs of customs and security fees. See "Incentives Based Zones" at the Ministry of Investment's portal, [www.investment.gov.eg](http://www.investment.gov.eg). A 2005 presidential decree established the Industrial Development Authority under the auspices of the Ministry of Trade and Industry to oversee the development of industrial zones; see [www.ida.gov.eg](http://www.ida.gov.eg) for a complete list of industrial zones by governorate. Previously,

institutional advantages, in terms of access to land and energy, other industrial infrastructure, rapidity of investment approval, and more facile trade procedures. However, at least one company complained that while the physical infrastructure is modern, its labor supply is distant and the company must transport workers 1½ hours each way to and from work every day. In an era of high fuel costs, this company is considering development of its own housing for workers to be located within easy walking distance of the factory.

Many are highly successful, well-organized, full-service companies that are already actively engaged with clients in the U.S. and Egypt. They are not representative of the full 223 companies that currently export to the U.S., but rather are indicative of “best practices” to which Egyptian companies in general might aspire.

### **Export Markets and Relationships with Buyers**

The companies we visited already sell to U.S. or European buyers. Brands mentioned in interviews include Calvin Klein, Banana Republic and Gap, Haggard, Hugo Boss, Levi’s, Liz Claiborne, Ralph Lauren, and Valentino, while private label buyers active in Egypt include J.C. Penney, Gymboree, KMart, Macy’s (Federated Stores), Marks & Spencer, Motherhood Maternity, Target, Victoria’s Secret, and WalMart. Some Egyptian companies have the local franchise for an international label, such as Guy LaRoche. Other companies produce for their own brands into the domestic market. At least one of these firms is commercially substantial and talks of growing in the European market through acquisition of existing European brands.

Egyptian garment exports used to be weighted more heavily to U.S. markets than European markets (perhaps 55-45 split). However, with the declining value of the U.S. dollar and the weakening U.S. economy, more Egyptian exporters are setting their sights on Europe. The QIZ Unit estimates that the split may be leaning 60-40 in favor of sales to the EU.<sup>12</sup>

Exporters say that the U.S. market offers the attraction of large orders (50-100-150,000 pieces), which offers great stability to companies that have the capacity to service them. Garments sold to the U.S. tend to be more basic, and thus easier to manufacture. However, U.S. price points are low as competition on basic garments is steep from Asia.

On the other hand, European buyers tend to offer smaller orders (8-10,000 pieces), which can be easier to service, especially for smaller companies. The garments ordered also tend to be more fashion-oriented than basic, and thus command higher prices. European buyers are perceived as being more flexible with respect to both price and delivery. As European reliance on Turkey diminishes (because of rising costs in Turkey), Europeans (and Turks) are turning to Egypt as a new, lower-cost supplier. However, because the garments are fashion items, they require greater technical production skills. Larger companies also say that the lack of integration at the retail level means that the European market presents too much heterogeneity to target customer bases efficiently, with parcelized production standards and distribution and retail networks.

U.S. apparel companies are bullish on Egypt. Several of the representatives with whom we spoke have recently chosen Cairo as their Mediterranean or African hub, relocating from Turkey (too expensive) or sub-Saharan Africa (too difficult to do business). They are drawn to Egypt by the QIZ arrangement, though note that in some instances costs out of Asia (Bangladesh was frequently mentioned as the relevant comparator), even inclusive of the duties that Bangladeshi sourced product must pay at the U.S. port, are still lower than the

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industrial zones received tax exemptions (now cancelled), energy subsidies (in the process of elimination), and other benefits. Companies in free zones operate under a temporary admission system to access imports without duty requirement, whereas industrial zone operations import inputs under a duty drawback system.

<sup>12</sup> Note that it was not possible to get trade data from Egyptian government databases. Rather, we worked solely from EU and U.S. import data.

landed price from Egypt. Buyers also appreciate the fact that Egypt's sail time to the U.S. is significantly lower than the sail time from Asia (10 days). One buyer noted that his company traditionally sources from Korean companies, which are willing to pick up and move their factories as trade agreements open up new platforms, in contrast to Egyptian companies, which tend to be more rooted here. Most buyers observed that Jordan's position as a garment supplier to the U.S. is waning significantly, done in by a value chain that over-relied on guest workers imported from Asia, sometimes under reportedly quite abusive working conditions (Kernaghan 2006). In contrast, in Egypt no more than ten percent of the workforce may be filled by non-Egyptian workers.<sup>13</sup>

When asked to compare sourcing from Egypt with sourcing from Morocco (where an FTA went into effect one year after the Egyptian QIZ entered into force, on January 1, 2006), several buyers and manufacturers commented that in contrast to the industry in Egypt, the industries in Morocco and Tunisia are much more Europe-focused, usually sourcing fabric from or through European firms, and with smaller production capacities that lend themselves more to servicing European-sized orders. Egypt also presents the advantage that Turkish manufacturers, with their well-established linkages to global value chains (for example, Gap Inc. had established a strong manufacturing presence there), have been developing relationships in Egypt for some time. It is also possible that American buyers may be more comfortable working in English in Egypt than trying to develop supplier relationships in the francophone Maghreb.

In addition to placing orders, buyer representatives often work directly with suppliers on their manufacturing processes. As such, they were best able to suggest strengths and weaknesses of the Egyptian supply base. Most concentrate their orders with 5-10 key factories that are capable of delivering the services and products they require. All are constantly on the lookout for new, capable suppliers. "Capability" is defined as the ability not only to cut, make, and trim garments, but to develop products, provide samples, merchandise, source fabric and trims directly, manage the financial obligations of international trade, plan production, assure quality control, and offer a clean manufacturing environment. Compliance with international core labor standards is understood to be a prerequisite for operating in today's export environment; increasingly, garment manufacturers will also be held to environmental standards, one buyer observed. Factories understand that their doors must be open on demand to international monitors and auditing companies.

Some foreign clothing companies specify to their manufacturers with which "nominated suppliers" they should work to source the appropriate fabrics and trims.<sup>14</sup> Reportedly, very few Egyptian fabric or trims manufacturers (one or two) have become accredited by U.S. buyers as nominated suppliers, although a few are in the process. Other buyers go beyond sourcing assistance and actually provide technical advisory services to improve their suppliers' productivity. These buyers are often actually competing with their own company's representatives in other parts of the world, and thus seek to improve the competitiveness of their local suppliers in order to grow their company's sourcing from Egypt rather than elsewhere.

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<sup>13</sup> Decree No. 136 of 2003 (August 3, 2008) concerns the conditions and procedures of granting work licenses to foreigners, in implementation of Labor Law no. 12 of 2003, see International Labor Organization's NATLEX database entry EGY-2003-R-69754.

<sup>14</sup> Two Egyptian firms mentioned that hidden charges, production defects, and opaque dispute resolution procedures may make long-distance relationships with nominated suppliers difficult, despite the fact that the latter are "pre-approved" by the brand company.

## **Input Sourcing From Israel**

Although the original intent of the QIZ arrangement was to encourage increased cooperation between Israeli and Arab partners through commercial linkages, that vision is far from being realized in Egypt today.

The level of actual interaction with Israeli suppliers varies widely among visited firms. A few companies have had extensive commercial connections with Israeli businesses, while others have no idea how to expand their sourcing options in Israel. Several sourcing companies have been established in Egypt to promote contacts, but there appears to be little face-to-face interaction and virtually no organized commercial contact between or among professional associations of the two countries. Travel between the two countries, even for explicit commercial or professional exchange purposes, remains frustrated by complex and lengthy travel approval procedures.

Almost all manufacturers we visited spoke of the increasing difficulty they face in sourcing 10.5% of their content from Israeli companies. Reasons include both the alleged higher cost of inputs sourced from Israel (25-50% higher than comparable inputs sourced from Asia, according to some), and the limited availability of appropriate goods. In early 2008 an Israeli denim manufacturer closed, while other garment manufacturers have also had financial difficulties or shut down. Most companies say they satisfy the QIZ Israeli content requirement by procuring greige fabrics, interlining, pocketing, thread and trims, packaging materials (i.e. cartons, poly bags), and chemical dyes. In the case of one company, MAC Carpet, the world's largest producer of custom printed tailored rugs, the lower tariff assessed by the U.S. on their exports – 6.8% is the highest rate of duty in HS chapter 57 – provides less incentive for the firm to seek Israeli content than for garment companies. The company, therefore, does not take advantage of the QIZ arrangement when exporting to the U.S.

Egyptian manufacturers hope to achieve parity with the Jordan QIZ arrangement, in which the Israeli content requirement was reduced to 8%.

## **Factory Capacity: From Makers to Suppliers**

The process of developing an article of apparel is a complex one, involving fashion trend analysis and design, manufacturing, trade logistics, merchandising, and customer support. There are many different occupations in this chain of work, as outlined in the box below. In the early stages of participation in the global textile-garments value-chain, developing country factories typically provide only manufacturing services to a foreign buyer, who does all the rest. In Egypt, this is likely the case for smaller companies. They focus exclusively on CMT (cut, make, and trim) or “making-up” services. Even sample-making departments, typically part of the manufacturing process, may be weak, according to informants in Egypt.

As global apparel companies seek to reduce their own overhead costs, they seek suppliers who can take on an increasing number of non-manufacturing services, at a lower total cost to the buyer. Egypt's most accomplished textile and garment companies are already providing fashion, product development, global sourcing, and merchandising services to buyers. Some companies have invested in information technologies to offer their customers flexibility with regard to customized product design and online order tracking. If Egypt is to succeed in expanding its participation in QIZ and EU-focused textile and garment exports, smaller companies will also need training and support to develop middle management, acquire these skills, and invest in these innovations. Increased visibility of the Egyptian industry at career fairs, increased interaction by professional associations with university faculties, and increased exposure of the Egyptian public to Egyptian companies' participation

in the world of fashion can help to attract new talent from fine arts, business, and engineering departments into the textiles and garment business.<sup>15</sup>

### Box 1: Garment Industry Occupations

#### Merchandising & Administration

- **Merchandisers** coordinate orders from sample development to delivery of garment.
- **Marketing** personnel manage relations with retailers or their buying agents and quote prices.
- **Sourcing agents** source and manage delivery of materials such as thread, fabric, and other trims needed for production and contract for garment manufacturing.
- **Costing clerks** estimate the cost of producing a specific garment style.
- **Purchasers** evaluate the most suitable suppliers and procure the supplies.
- **Accountants** manage all financial operations.
- **Compliance officers** interact with workers, union representatives, and independent compliance auditors to ensure smooth working relations.
- **Human resource personnel** are responsible for hiring new staff and managing existing staff.
- **Administration officers** are in charge of administration work and liaise with external government organizations.
- **IT engineers** provide information system and maintenance support.
- **Security officers** provide security to the work environment.

#### Fashion Trend Analysis & Design

- **Fashion trend analysts** assess what styles, fabrics, and colors will be popular next year.
- **Product development executives** oversee the process from market research, design conceptualization, to prototype sample.
- **Fashion designers** develop color, fabric, and garment construction strategies.
- **Pattern drafters or garment technicians** produce the pattern drafts and prepare the garment specifications package.

#### Garment Manufacturing

- **Sample makers** prepare fashion samples.
- **Business analysts** prepare production cost estimates.
- **Industrial engineers** plan the most efficient way to organize production.
- **Production planners** plan factory work schedules.
- **Marker specialists** prepare markers for mass production cutting.
- **Cutters** spread patterns out on fabrics, and cut pieces.
- **Sewing operators** assemble cut fabric and trims into whole garments.
- **Checkers** check the garments for defects and cull them if defects exist.
- **Supervisors** manage workflow through the production lines.
- **Quality assurance auditors** ensure the quality of the final garments and interact with retailers or buying agents.
- **Quality assurance managers** oversee quality assurance auditors and checkers.
- **Work study technicians** conduct time and motion study for each specific operation on the production floor.
- **Maintenance officers** provide preventative maintenance program to ensure minimal equipment breakdown.
- **Finishing department** personnel oversee washing, distressing, and other finishing processes.
- **Pressers** press and finish garments.
- **Packers** prepare garments for shipping.
- **Production managers** oversee the entire manufacturing process, and ensure smooth working relations at all levels of the factory.
- **Factory managers** are in charge of shipping, merchandising, planning, warehouses, and production.
- **General managers** ensure that the factory has the resources it needs to perform optimally to meet the needs of the home office.

#### Trade Logistics

- **Shipping officer** prepares all shipping documents for exports and ensures all incoming shipments are cleared.
- **Store supervisor** oversees the warehouse operations.
- **Logistics officers** coordinate shipping of containers of garments to retail customers overseas.

Source: Salinger and Tan 2007

How can these skills be acquired? As mentioned above, some buyers offer technical services to their suppliers, which are the better established Egyptian firms. One large company that is already selling to a range of clients told us, “We learn from everyone who comes through, our buyers, quality inspectors, social compliance auditors, wash technicians,...” Another firm said that representatives from their German machine vendor are in their factory “every week,” and offer lots of technical advice.<sup>16</sup>

<sup>15</sup> The author has been involved in similar efforts in Cambodia through the USAID-funded Garment Industry Productivity Center ([www.gipc.org.kh](http://www.gipc.org.kh)) to publicize the range of professional careers available to Cambodian university graduates.

<sup>16</sup> Workforce development strategies for textile industry development vary greatly around the world. In countries with more established industries, polytechnic universities or departments within universities offer two- and four-year undergraduate (and possibly even graduate) degree programs in textiles and apparel studies. Some developing countries may send students abroad for training. In countries with less mature industries, skilled occupations within a textile mill or garment factory may be filled by expatriate professionals. This works as a short-term solution, but may lead to culture clashes on the production floor if

Companies that are smaller, or have not yet attracted attention from such a buyer, may access technical assistance on production and business-related issues through the Industrial Modernization Center (IMC). The IMC was launched with an initial grant of €250 million from the EU. It is now a sustainably financed public institution. The Center offers programs that cover human resource development, innovation and R&D, technology transfer, information, finance, exports, and quality. Closer exploration of the IMC website suggests that the Center excels at twinning Egyptian firms with providers of broad business management, IT, and training services, and is perhaps less focused on the provision of services or training for industry-specific needs. As we were unable to meet with IMC during the weeklong visit to Cairo, a more in-depth exploration through face-to-face meeting in order to get a better sense of the availability of textiles-related services would be advised.

### **Labor, Productivity, and Workforce Development**

A conundrum is noted with regard to labor-related issues. Although official unemployment in Egypt is still quite high (9%) and underemployment is presumably much higher, several textile companies report they are presently facing difficulties in hiring workers, even at low skill levels. Despite considerations regarding tight labor supplies at present, several companies credited the QIZ arrangement with significant expansion of their labor forces.

One of the interesting outcomes of such tightness in the labor market is that workplace relations between employer and workers tend to be much less confrontational than are found in many other developing countries (aside from recent demonstrations at public sector textiles factories for wage increases). When asked about work stoppages and labor disputes, employers stressed that if an employee is unhappy with his or her work situation, he or she simply leaves and looks for work elsewhere. It is unclear to what extent workers share this sense of labor markets favoring them over employers.

Minimum wages are established by the National Council for Wages, under the aegis of the Ministry for Economic Development. The basic minimum wage was raised in early 2008 to LE280 per month, after several years of no adjustment (El-Fiqi 2008); it is not clear whether different minimum wages have been set by industry or region. The official work week is 6 days per week, 8 hours per day. Two hours of additional overtime per day are also allowed. Payment of overtime is regulated by the labor law: an additional 35% is paid for normal overtime worked during daylight hours, 70% for night hours, 100% on Fridays, and 200% on official holidays. Garment companies report starting new workers at about LE300 per month. As skills progress, workers also collect production incentives, which are tax-free. With overtime, attendance, and quality bonuses, a sewing operator may earn anywhere from \$100 to nearly \$200 per month, depending on the factory.

Tightness of the urban labor supply – and thus presumably upward pressure on wages in Greater Cairo and the Delta regions – is leading to mounting pressure to relocate manufacturing firms into Upper Egypt (i.e., the upper Nile region, between Luxor and Aswan). Wages are said to be half as great in Upper, compared with Lower, Egypt. The MTI's Industrial Development Authority (IDA) is actively pursuing growth in this part of the country, and the government of Egypt has asked the U.S. and Israeli governments to consider naming a fifth QIZ in Upper Egypt.<sup>17</sup>

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local capacity in production supervision, industrial engineering, and management are not developed. In Cambodia, for example, the Better Factories project (supported by the Royal Government of Cambodia, the Garment Manufacturers' Association in Cambodia (GMAC) and unions, with funding provided by the U.S. Department of Labor, USAID, the *Agence Française de Développement*, the Garment Manufacturers' Association in Cambodia, the Royal Government of Cambodia and international buyers) has, for instance, developed a training program that focuses on workplace conditions and cooperation; see [www.betterfactories.org](http://www.betterfactories.org).

<sup>17</sup> Given that garment factories are typically situated near ports (where export processing zones are typically located) or urban centers, yet their workforce often draw from rural, less well-educated populations, many industries around the world face this constraint. In Cambodia, the industry is concentrated in the capital city of Phnom Penh (about 4 hours by road away from the

Workforce turnover in textile and garment factories is said to be from 6-25%, though is likely even higher. Egyptian cultural values result in much higher rates of turnover for women, stemming from cultural biases against work by married women. Almost all companies interviewed mentioned this as a serious constraint to improved productivity in Egypt, as women withdraw from the workforce as soon as they married.<sup>18</sup> As a result, many factories favor men in their overall workforce composition.

The topic of labor is of high visibility to foreign investors and buyers who compare the competitiveness profiles of various countries on a range of variables, including the stability of the labor sector. On the one hand, international companies seek to do business in countries where freedom of association (a core labor standard) is respected. On the other hand, they are also nervous about sourcing in countries where industrial relations between employers and workers are troubled, because time lost to work stoppages or strikes affects the reliability of their shipments. Thus, we asked companies about the labor relations within their factories.

Labor-related issues do not appear to loom large for Egypt's textile industry. Egypt's labor sector is governed by a 2003 labor law. Freedom of association is guaranteed to workers in enterprises that include at least 50 employees who seek to form a union; most union members are employed in public enterprises (U.S. Department of State 2008). The labor law also stipulates annual wage increases of 7%, and a minimum workforce quota of 5% to employ handicapped workers. Profit-sharing is mandated by the labor law, guaranteeing no less than 10% to be distributed to employees of joint stock and limited liability companies, as well as foreign branches.<sup>19</sup> None of the textile companies interviewed had formal labor unions on site, although a number of the companies did refer to employment-worker councils that met on a regular basis to resolve workplace issues. Labor unions were said to be rare in private companies, concentrated rather in publicly owned textile mills.<sup>20</sup> Legal strikes and illegal work stoppages are said to be an uncommon occurrence in most of the privately owned side of the industry.

Egypt's 1996 Child Law limits the extent to which children under the age of 18 may legally work (U.S. Department of State 2008). Outside of agriculture, the minimum age for employment is 14, provided that the child has completed basic education. Seasonal work for children between the ages of 12 and 14 is allowed, provided that it is not hazardous and does not interfere with schooling.

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port of Sihanoukville), where government approvals of trade-related paperwork are easiest to procure and industrial infrastructure is most reliable. In Honduras, the garment industry is situated for easy access to the major port of Puerto Cortés, extending inland 45 minutes by road to the urban center of San Pedro Sula. Morocco's industry is concentrated in and around the major cities of Tangiers, Rabat/Salé, and Casablanca. Yet in all these cases workers are drawn not only from urban households but also from further inland, leading to significant rural-to-urban migration. Either housing must be provided by the factories themselves (see next footnote), or the local real estate market must be sufficiently flexible to develop a dormitory-style, rental housing market.

<sup>18</sup> Around the world, female workers comprise the majority of the apparel industry workforce, although in some countries the share of male participation is nonetheless significant (20-30 percent) (Dickerson 1999). The integration of women, especially young, rural-based, often illiterate or weakly educated women from poor households, into formal, factory-based workforces, has led to cultural upheaval since the 1800s when girls in their mid-teens migrated to work in the textile mills of Lowell, Massachusetts (Deitch 1998). Women – both single and married – enter the industry to help their families financially, contribute to dowry costs, and also as a preferred alternative to rural or household work. In some countries (such as Bangladesh, Egypt, and Morocco), women are more likely to leave work when they marry, while in others (Cambodia, Honduras) married women continue employment in the garment sector, living in town with husband and children. To accommodate the needs of their largely female workforce, factories in many countries around the world provide dormitory housing, transportation to and from work, meals, and special accommodations for women who are nursing infants. In some countries, concern for women workers' security after dark precludes the introduction of second and third work shifts. Participation in the formal world of work often changes traditional gender and power roles, particularly as employed women control some or all of their income, some portion of which is usually remitted home to their families (Gammage et al. 2002; Miller and Vivian 2002)

<sup>19</sup> Limited liability companies with capital less than LE 250,000 are exempt.

<sup>20</sup> Workers at Egypt's largest publicly owned textile mill, the Misr Spinning and Weaving Factory in Mahalla El-Kobra with a total workforce of 27,000, have been actively striking for higher wages and better economic management, according to online news reports.

Labor productivity is said to vary widely in many Egyptian textile companies. Burdened with outdated equipment and large work forces, public sector firms in particular are said to be uncompetitive in cost and quality. Private sector firms which export, while more competitive, nonetheless are seen as having wide differences in productivity. Low productivity obviously means higher costs, as less volume is produced with a given sized workforce. One person thought that the Egyptian workforce was only 35-45% as efficient as the Turkish or Bangladeshi workforce, other firms quoted percentages as high as 70%. One buyer thought that Egyptian factories, in general, have far to go to squeeze maximum efficiency out of their workforces.

Garment industry labor productivity results from a complex set of factors. For maximum production efficiency, sewing operators should master the machines on which they work. Higher level machines should be available to handle complex sewing, assembly, and finishing operations. Sewing lines should be balanced, so that work flows regularly and workers up and down the line stay busy. Machines should be maintained to minimize breakdowns. Working conditions regarding light, sound, and ventilation should be maintained at tolerable levels to preserve workers' energy levels. Line supervisors should oversee production flow, be able to recognize when an operator is having a problem, and resolve issues quickly. Workplace relations between workers and employers should be cooperative, rather than confrontational, with employees able to communicate concerns to management easily and resolution of issues addressed efficiently, so as to avoid time lost to disputes.

In addition, the introduction (or better use) of industrial engineering techniques can help to raise productivity levels.<sup>21</sup> Time-study methods can be utilized to measure individualized standard times for individual work operations. This allows workers to gauge their own efficiency and managers to monitor the efficiency of lines and floors. Several companies we interviewed are aware of, and possibly even already employ, such industrial engineering techniques. However, many firms in Egypt undoubtedly do not know of or use these methods, and even among those that do, better use of time study to improve efficiency of workers and production lines is crucial.

Several textile and garment companies raised with us the issue of limited industrial skills availability in the local market. At higher skill levels, a number of companies have hired in foreign staff (American, European, Turkish) for managerial and technical positions. There are concerns that Egypt's universities are not able to turn out modern textile and garment industry managers, fashion designers, product developers, textile engineers, etc. rapidly enough to supply the growth requirements of the industry. Others would like to see improved means of accessing international technical assistance or private consultancy services to solve crucial technical or management problems on an as-needed basis.

### **New Investment Directions by Egyptian Firms**

Recognizing that the QIZ offers the biggest incentives to export in product categories that bear the highest tariff rates into the U.S., a number of the companies with whom we spoke are actively engaged in investment programs to target new segments of the garment market.

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<sup>21</sup> Work study departments and the measurement of standard times by operation and worker are a common practice in many garment industries around the globe (Abernathy et al. 1999, 165-184; Glock and Kunz 2005, 329-361). Setting standard times allows each operator to gauge his or her own performance relative to production standards in the factory where he or she works. Employers may prefer to link operators' compensation to production levels through piece-rate systems. Courses in industrial or apparel production engineering, for example, are offered widely in U.S., Latin American, and Asian university apparel or engineering degree programs, as well as in industry training centers such as the Textile and Fashion Training Center in Singapore, the Garment Industry Productivity Center in Cambodia, and the Clothing Industry Training Institute in Sri Lanka.

In addition, a number of the best-practice firms we visited are innovating new services to present a “full package” to the apparel buyer.<sup>22</sup>

For instance, one vertically integrated knitwear company is investing in man-made fiber spinning capacity. Another knit manufacturer is evolving into specialized and performance fabrics. Yet another is investing in its own dye-house to enable it to do fabric dyeing in-house and ensure quality. Several garments manufacturers have developed new production capabilities, for instance into higher end fashion garments (that may require embroidery, silk screening, or more sophisticated sewing skills) or tailored suits (that also requires investment in new machinery and accompanying construction skills). Another is looking into the production of high quality socks to complement the rest of its knitwear lines. A textile company began in 2000 to develop its own fabric collections, and is now producing very high quality men’s shirting fabrics that are sold at a significant premium into Europe. This company now plans to invest in marketing capacity to take the collections into the U.S. market.

### **Foreign Investments in Egypt**

Encouraging foreign investment is a critical part of any strategy to promote exports. Foreign companies bring with them technical and management know-how, as well as sourcing and marketing connections to the rest of the global value chain. The garment export booms from China, Vietnam, Bangladesh, Honduras, Cambodia, and even Jordan were stimulated by foreign investors setting up facilities in these countries. Egypt, too, should encourage foreign investment not only upstream in the textile mill sector but also downstream in garment production.

Egypt’s textile industry today is predominantly Egyptian-owned, although several Turkish and Indian textile companies have reportedly already been established. Though exact figures are unavailable, Turkish, Indian, Gulf state, and other investors are all said to be interested in establishing new manufacturing capacity in Egypt. Turkish investment is being courted, in particular, given the well-established industrial base in Turkey, the rising cost in turkey of doing textile-related business (for instance, monthly sewing operator wages there are said to be more on the order of \$450-500 per month) (Loza 2007), and Egypt’s FTA with Turkey. The MTI’s QIZ Unit has created a specific Turkish sub-unit to facilitate Turkish investment.

The prospect of increased foreign investment in Egypt’s textile industry is viewed optimistically by many with whom we spoke, who relish the chance to be part of meaningful cluster development here. However, several voiced concerns that this will strain even further the limited capacity of Israel to supply 10.5% of content.

### **Local Policy Environment**

Policy issues that might normally be expected to pose a constraint to the textiles industry in a country such as Egypt include the following:

- Access to imported inputs at world prices

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<sup>22</sup> The term “full package” refers to a stage in what is known as industrial upgrading. Typically, manufacturers in developing countries begin by selling their labor for assembly processes (in apparel, referred to as “cut, make, and trim” or CMT). Some call this “outward processing trade” (OPT), when the industrial countries of Europe and the United States continued to manufacture fabric, which they shipped in bolts or pre-cut, for assembly in nearby developing country factories. As developing country firms mature, they provide greater services to apparel firms in the consumer countries, contributing through sourcing and more sophisticated product manufacture. This stage is the “full-service package” stage, also known as “original equipment manufacture” (OEM), when the final good is still sold under the buyer’s label. As companies take on more product development and design, they pass into the “original design manufacturer” (ODM) stage. Finally, with sophisticated fashion analysis, design, marketing, and possibly even retail departments, companies may eventually become “original brand manufacturers” (OBM). See Gereffi, Spener, and Bair (2002), Gereffi and Memedovic (2003), and Magder (2005) for further discussion.

- Access to energy at world prices
- Ease and transparency of customs procedures and services for import/export
- Environment for “doing business,” including public procedures for starting a new company, obtaining necessary licenses and registrations for domestic and international operations, access to land, hiring/firing of labor, etc.
- Access to foreign exchange at market rates
- Access to capital and trade finance at globally competitive interest rates
- Labor policy with respect to collective action, wages, hiring and firing, workplace inspection, dispute resolution,... that encourages smoothly functioning workplace relations
- Corruption

None of these were characterized as truly problematic by informants during our week of meetings. The 2008 *Doing Business* report heralded Egypt as “the top reformer in the region and worldwide,” for having greatly improved its position in the global rankings on the ease of doing business (IFC 2008). Indeed, when asked, most companies with whom we spoke did not highlight domestic policy concerns among their top priorities. Duty drawback systems function adequately, the cost of electricity is (if anything) subsidized rather than taxed relative to world references,<sup>23</sup> most containers leave port when they’re supposed to on one of ten or fifteen different shipping line options, and a plethora of incentives systems exist to encourage investment and industrialization (which, while perhaps confusing to the foreign newcomer, seem to be straightforward for Egyptian companies). With regard to exchange rate policy, Egyptians have enjoyed a fairly strong anchor of the Egyptian pound to the U.S. dollar, that (until very recently) afforded businesses in Egypt enviable macroeconomic stability. However, as both inflation heats up and the dollar’s value diminishes, the Egyptian pound has been allowed to float more freely and Egyptian firms are feeling squeezed.

Textile and garment companies’ chief policy concern was with regard to the Israeli content requirement for eligibility to export to the U.S. under the QIZ arrangement. Most Egyptian firms would like to see further re-negotiation of the terms of the QIZ so that Egypt can achieve parity with Jordan, i.e. be subject to the 8%, rather than the 10.5%, content requirement.

## **5. Prospects for Diversification of Egypt’s QIZ Exports**

Although most of Egypt’s exports to the U.S. under the QIZ arrangement have been of garments, there is nothing in the protocol with Israel that restricts the products that are eligible for duty-free access to the U.S. market.

Sectors that have been mentioned with potential for consideration under the QIZ include automotive parts, electrical goods, and in certain cases, food and agricultural products. Pursuit of exports to the U.S. via the QIZ makes the most sense if there is a significant tariff advantage to be gained by doing so. Most Egyptian goods by and large already qualify for preferential (duty-free) access to the U.S. market under the Generalized System of Preferences (GSP). For exporters of food products, for examples, it makes less sense to target these for export under QIZ, with the additional expectation of the Israeli content requirement, since they already enter the U.S. free of duty. On the other hand, for products

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<sup>23</sup> Electricity was available to textile companies at 3.5 cents per kilowatt hour, but the price is being increased over three years to 5-6 cents, depending on the business’ level of demand. See Neumann and Schurgott (2008).

that are ineligible for GSP treatment – such as apparel, footwear, leather goods, and luggage, whose importers pay duties that can go as high as 20% (luggage), nearly 30% (garments), and even 48% (certain footwear articles)<sup>24</sup> – duty-free treatment under the QIZ is an interesting incentive.

The question of whether certain food and agricultural products<sup>25</sup> might feasibly be exported from Egypt to the U.S. under the QIZ was explored in an interview with a leading Egyptian agro-industrialist.<sup>26</sup> According to him, a number of U.S. agribusiness companies are already sourcing from Egypt, though not necessarily using the QIZ for export. The international spice company McCormick, for instance, already buys herbs and spices such as basil, caraway seed, dill weed, marjoram, and mint in Egypt.<sup>27</sup> And one of the leading U.S. tomato processors, H.J. Heinz Company, is teaming up under a Global Development Alliance through USAID with the U.S. organization ACDI/VOCA and the Egyptian Ministry of Agriculture in a public-private partnership to develop supply chains for processed tomato and other value-added horticulture in Upper Egypt.

As underscored by Farm Frites-Egypt, successful exporting of agricultural products to the U.S. and European markets faces hurdles. First, it requires large supply volumes, produced under optimal conditions. Egypt will have to develop a system of contract farming or large-scale, industrial farming to ensure adequate supply. Upper Egypt was mentioned as a possible location of farmland concessions from the government to develop such a production chain. However, Egyptian companies will need to invest in modern agro-processing machinery to improve efficiency. Second, international trade in food and agricultural products, particularly when targeting the U.S. and European markets, requires a sophisticated information system to allow traceability back to the field level, in order to be able to link grocery store sales with fields of origin and know the exact conditions under which a particular food was grown, harvested, processed, and packaged. Third, compliance with animal and plant health and food safety regulations of importing countries represents additional significant challenges.

As deeper analysis is beyond the scope of work for this short assignment, fuller exploration of sectors that might be appropriate for QIZ promotion should be undertaken.

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<sup>24</sup> Articles prohibited from GSP treatment include textile and apparel articles; watches; import-sensitive electronic and steel articles; certain footwear and handbags, luggage, flat goods not made of silk, work gloves, and other leather items; import-sensitive semi-manufactured and manufactured glass products; and any agricultural product that is subject to a tariff-rate quota; and any other articles deemed by the U.S. to be import-sensitive in the context of the GSP.

<sup>25</sup> Dried garlic and onions, for example, are subject to unusually high tariffs (29.8%) in the U.S. and ineligible for duty-free import under GSP. Other fresh, frozen, and processed fruits and vegetables face higher tariffs as well (from 8 to 21%), unless exported to the U.S. under GSP by a least-developed beneficiary developing country, which Egypt is not.

<sup>26</sup> He manages the Egyptian-Kuwaiti-Dutch joint venture agribusiness, Farm Frites-Egypt. Farm Frites Beheer BV of the Netherlands is one of the top three potato processing companies in Europe, according to the company's website. The Egyptian company is both a production and marketing company. It targets North African, Middle East, and African markets for frozen French fries (sold, for example, to McDonalds in Morocco). The company is also exploring prospects to export frozen (cut) green beans to the U.S.

<sup>27</sup> See <http://www.mccormick.com/content.cfm?id=11107> and <http://www.mccormick.com/content.cfm?id=8213> for examples.

## 6. Conclusions & Considerations Moving Forward

### What We Found

While the companies interviewed during this scoping study are indeed impressive, they face challenges as they seek to expand their exports of textiles and garments abroad. And if *these* companies face challenges, the rest of the 200 or so companies that are actively engaged in exports most certainly do as well. Themes that resonated repeatedly during our meetings included the following:

- **Sourcing content from Israel:** With the collapse of Israel's textile industry, Egyptian firms struggle to find suppliers to meet the QIZ's 10.5% Israeli content requirement. Coupled with the weakness of the U.S. dollar and the strong Euro, most of the companies visited are finding the U.S. market to be a more formidable challenge than originally anticipated, and seek to increase the proportion of their business going to Europe. With foreign companies moving to Egypt or sourcing heavily from Egypt, even more pressure will be put on the supply base of Israeli originating materials.
- **Production:** Few Egyptian fabric or trim manufacturers are recognized by international apparel companies as nominated suppliers. Most Egyptian garment companies are said to produce as CMT shops. They face difficulties in sourcing, product development, sample production, and full-package service delivery. Even when they break in with big U.S. buyers, difficulties are encountered with buyers' nominated suppliers or far-away value-chain partners. Companies also have limited capabilities *inter alia* with respect to making samples, merchandising, middle management, industrial engineering, and the ability to handle more intricate "fashion" requirements of manufacturing.
- **Labor, productivity, workforce:** Companies reportedly face shortages of both unskilled and skilled labor, and thus must deal with rising wage pressures or seek to relocate at least some of its industrial base further south (as the American industry did in the mid-1900s when faced with the same pressures) into Upper Egypt where labor is more available and thus less costly. Workplace relations in Egypt seem less confrontational than elsewhere, but this bears further exploration. Labor productivity is said to be generally low, though we visited seeming high-productivity exceptions. There is a great demand to improve industrial skills, at all levels. Importing expatriate managers is a short-term solution, but longer term Egypt must expand training course offerings, review industry-oriented education programs, as well as work to attract graduates into textile careers.
- **Awareness of QIZ outside of RMG:** Even amongst this sample of well-placed companies, there was limited awareness of, or interest in, using the QIZ protocol as a way of diversifying exports outside of RMG. This may need more outreach by the Federation of Egyptian Industries or sector-specific chambers. Most agricultural products do not need the QIZ to be exported cost-effectively to the U.S.<sup>28</sup>

### Considerations In the Short Term

#### Surveying Broader Industry Sample

In the short term, it is recommended that the base of the scoping study be expanded to include a more representative sample of QIZ-listed companies that are engaged in export. Before finalizing recommendations for programs that may improve the export

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<sup>28</sup> Dried onions and dried garlic are an exception, however. In powder or flour form, the tariff on dried onions is 29.8% into the U.S. (21.3% for other forms), with no duty-free exception under GSP. All forms of dried garlic face a 29.8% duty.

competitiveness of Egyptian garment firms, we should know more about the “average” company.

It is recommended that a team, comprised of a textile engineer, a garment industry specialist, and a garment industry expert specialized in workforce issues, return to Egypt, to carry out such a survey. Two of these experts would comprise the “survey team,” responsible for the conduct of firm-level interviews. The remaining expert and team leader would participate in some of the interviews, but would also be responsible to meet with the IMC and other education and training providers while in Egypt. Assuming that the team is available for two full weeks in Egypt, the survey team could expect to cover a minimum of 40 companies in that time period (4 meetings per day). However, it should be noted that travel beyond Cairo will likely be required, which may reduce the total number of firms that can be accessed in a ten-day period (and thus may suggest a 2½-3-week visit instead).

In order to determine the sample size, more information about the breadth of the exporter base is needed. The QIZ Unit collects base data on every registered company: location, number of employees, investment amount, value of exports to the U.S., and range of products produced. Once we see that list for the 717 companies, then an optimally sized sample can be drawn that will better reflect the range of firms and thus the range of their needs.

The total number of QIZ exporting companies is 223, of which we saw but 9. A broader swath of the remaining industry should be sampled for insights into how they are organized, what their performance strengths and weaknesses are, what they perceive their needs to be, in what kinds of services they might be interested, and how the delivery of those services could best be structured to meet their needs.<sup>29</sup> Consideration should be given as to whether to include both publicly and privately owned companies, or whether the former are part of a unique subgroup that would require its own approach. It is particularly important to understand what companies want, so as to ensure that training courses and advisory services (and whatever else they think might be useful) can be delivered in a way that ensures high participation rates by the companies themselves. In addition, there are 494 firms that are registered with the QIZ Unit but that are not actively involved in exporting. Presumably, these firms are also trying to break into the U.S. market, or they would not be on the registry. It will be important to include a sub-sample of these firms as well in the broader survey.

## **Considerations In the Medium Term**

In the medium term, the task of improving the export competitiveness of Egypt’s textile and garment factories must address the issues they know they face and those they don’t yet know they face. From observations made during one week in Cairo, we have grouped these into four areas: addressing workforce skills gaps, improving implementation of the QIZ protocol, encouraging foreign direct investment, and undertaking further analysis of labor market conditions.

### **Addressing Workforce Skills Gaps**

Numerous workforce skills gaps have been enumerated above. More information will be gathered in the subsequent survey to understand their full dimensions. In addition to talking with companies to identify what they believe to be their most significant skills gaps, it will also be important to explore what training and consultancy services are already being

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<sup>29</sup> In Cambodia, for instance, we undertook a similar process, starting with a brief scoping study and expanding into a broader survey of 85 factories (out of a sample of 300). The Garment Industry Productivity Center ([www.gipc.org.kh](http://www.gipc.org.kh)) that operates in Phnom Penh today is supported by a three-year grant from USAID/Cambodia. Training courses are offered on a reduced cost (but not free) basis to interested companies, marketed through the Garment Manufacturers Association of Cambodia. Long-term sustainability beyond the life of the USAID grant is presently being negotiated with industry, government, and possibly other external support.

provided by providers such as IMC and others, as well as what incentives are offered by the government of Egypt to encourage companies' investment in training. It will also be important to understand what textile and garment industry-related educational and research capacity exists in Egyptian or perhaps regional universities with whom Egyptian schools may have cooperative relationships.

A list of topics to be explored by the survey is suggested in Annex A. This should be vetted with the other members of the survey team and with MTI's QIZ Unit before implementation of the survey to amend as necessary.

It is likely that short and medium length training courses and advisory services may be useful to Egyptian firms in a number of areas, some of which are anticipated here.

- Fashion trend analysis
- Product development, patternmaking
- Organizing a sample production unit
- Organizing the cutting room
- Global sourcing, sourcing from Israel, working with buyers' nominated suppliers
- Becoming a nominated supplier
- Strategies for improving factory productivity: From ergonomics to time study
- Models for smooth workplace relations
- Introduction to incentives-based compensation systems
- Textile and garment merchandising
- Understanding social compliance auditing
- Understanding customs and cargo security (Customs-Trade Partnership Against Terrorism) rules

Identifying skill gaps and possible training needs should not be the end goal of the survey. Rather, companies should be asked to identify how they would like these gaps addressed. Can they afford to send line supervisors or middle-managers to a training course, and if so, what would be the optimal time commitment from their point of view? Is it preferable to invite trainers/technical advisors to come into the factory for analysis, advice, and remediation assistance? Would companies be interested in fostering internships with university seniors or recent graduates in management and technical areas related to textiles and garments, so as to facilitate school-to-work transitions into textiles careers? These and other workforce development issues should be carefully explored with the ultimate beneficiaries – the companies themselves – before final recommendations are developed. Consultants should plan to spend several days with training providers before undertaking the firm-level survey so as to be fully informed and able to have meaningful discussions with the firms about available training offerings.

### **Improving Implementation of the Israel-Egypt QIZ Protocol**

Steps should be taken at both the diplomatic and commercial levels to ensure that the QIZ protocol is working for both Israeli and Egyptian businesses. A fairly high level of cynicism regarding the commercial viability of the Israeli content requirement, particularly in light of the reduction of Jordan's QIZ requirement to 8% and the financial difficulties of Israel's textile industry, reigns among most (though not all) companies with whom we spoke.

At the commercial level, the Israeli-Egyptian partnership appears stalled. The supply of originating goods from Israel is in question, due to the fact that a number of the original participating Israeli companies have met financial difficulties or closed all together.<sup>30</sup> Without Israeli inputs, of course, there are no QIZ products. Normally, this would induce business people to travel in search of new suppliers, yet given the politically sensitive bilateral relationship many Egyptian business people cannot (or do not wish to) travel easily to Israel to undertake such investigation. Yet whatever the status of the industry in Israel, Israeli technical know-how presumably still abounds and should be taken advantage of in Egypt. Use of Israeli advisory services, already initiated by some best-practice firms in Egypt, should not be overlooked under the content requirement.

Improved cooperation is recommended at both government and industry levels. The Egyptian and Israeli governments should encourage cooperation to boost the supply of Israeli inputs, facilitate travel between the two countries, foster business linkages, and undertake other steps critical to the commercial viability of the QIZ. More should be done to attract Israeli investors and collaborators into a diversified set of QIZ-oriented export industries outside of textiles and garments. Stronger, regular coordination at the private sector level, i.e., between chambers of textile and garments industries from the two countries, should also be facilitated.

Renegotiation of QIZ legislation is recognized to be at best impractical, or perhaps even politically infeasible at the present time. In the U.S., Congressional authority to the executive branch to negotiate new trade agreements has expired, the current political administration is in its last months, and no new movement on trade agreements reform or negotiation can be expected any time soon. Nevertheless, in the interest of preserving the attractiveness of the QIZ as a means to stimulate export-oriented, labor-intensive manufacturing in Egypt, prospects for 1) renegotiation of Egypt's Israeli content rate to achieve parity with that in Jordan, and 2) integration of regional cumulation with content sourced from other Middle East and Mediterranean countries that already enjoy preferential access into the U.S. market, should not be left unexplored.

As textile companies falter in Israel, it is conceivable that fabrics, trims, pocketing, interlinings, or other materials might be sourced from Morocco, Jordan, Oman, or Bahrain into Egypt for final processing into garments. Each of these other countries already enjoys an FTA with the U.S. Their textile mills may not seek such markets in Egypt now, especially if they currently supply domestic apparel operations in their own countries. And Egyptian apparel companies may currently only engage with Israeli, customer-nominated, or competitive Asian suppliers for fabric. However, if a future QIZ arrangement could be defined that would allow Egyptian companies to include originating materials from the four Middle East FTA partners with the U.S. as part of a 10.5% *regional* content requirement, then perhaps they would seek out new commercial opportunities with these potential suppliers. From the U.S. perspective, policy makers seeking to advance the goal of the Middle East Partnership Initiative by encouraging economic integration with and among Middle East partners may wish to explore whether the QIZ arrangement between Israel and Egypt could be expanded to include non-Israeli, other Middle East-sourced inputs as part of the regional content requirement.

### **Encouraging Foreign Direct Investment**

While foreign direct investment was outside the scope of this assignment, the importance of facilitating new growth in this industry bears underscoring. Industrial space is in high demand

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<sup>30</sup> See "Tefron to cut up to 20% of employees," March 23, 2005, [www.marketwatch.com](http://www.marketwatch.com); "Israel's textile industry sees further layoffs," March 6, 2008, [www.marketwatch.com](http://www.marketwatch.com); Israel: Polgat Textiles to Shut Kiryat Gat Factory," March 10, 2008, [www.just-style.com](http://www.just-style.com); "GMM Capital seeks to tighten control of Delta Galil," May 12, 2008, [www.marketwatch.com](http://www.marketwatch.com); Israel: Tefron Swings to Q2 Loss on Hi-Tex Costs," August 14, 2008, [www.just-style.com](http://www.just-style.com).

as foreign investors seek to establish manufacturing facilities to produce fabrics, buttons, thread, zippers, other supporting materials, and of course garments.

Care must be taken, however, that such expansion is not undertaken at the cost of labor standards compliance. Protection of labor rights and assurance of compliant labor conditions must be safeguarded as the country's industrial profile shifts with the addition of foreign companies – in export processing, industrial development, and qualifying industrial zones alike – in order to avoid the mistakes made in Jordan.

### **Undertaking Further Analysis of Labor Market Conditions**

Industrial expansion to take advantage of QIZ and other export opportunities requires an available supply of labor. Transporting workers at great length from their homes to factories is not an optimal solution, nor is building dormitory housing alongside factories for Egyptian workers. These have the undesirable effect of uprooting workers from family life, which is not in society's interest.

Yet we do not fully understand the conditions that shape labor supply and demand in Egypt's market in and around Cairo and the Delta, as well as outside these major urban centers. Garment factories around Cairo seek to hire workers, but cannot find them – at what price (wage)? What is the “reservation wage”<sup>31</sup> of unemployed workers in Egypt? Who are the “unemployed” and what are they doing in their unemployment that keeps them from responding to labor market demand? Is unemployment really so high,<sup>32</sup> given the anecdotes of jobs that go unfilled?<sup>33</sup> How are employment opportunities advertised? How do job seekers find out about factory employment? Are there hidden barriers to entry level jobs? What industrial or non-industrial employment alternatives are enjoyed by low-skilled workers, and how do working conditions and wages differ among these alternatives? Is the cultural bias against women remaining in the workforce after marriage fixed, particularly for women who may not have finished secondary school education? What workplace innovations might encourage these women to continue working? How do remittances from Egyptians working abroad affect the supply of labor? How different is the labor market in Upper Egypt?

The pressures of the international textile industry to reduce costs has led manufacturers everywhere to seek low-wage platforms from which to operate. While low wages are not the *only* strategy for competitiveness – many of the investment and industrial upgrading options discussed above provide examples of alternatives being pursued in Egypt and elsewhere – nevertheless, understanding the current dynamics of the Egyptian labor market and how these affect prospects for future textile industry evolution in Egypt, is a crucial element of the export competitiveness question. Thus, these and other questions would benefit from a more thorough exploration at a later date.

### **Undertaking Further Analysis of Export Prospects in Other Sectors**

In order to understand whether manufacturers could take advantage of the QIZ in other product areas that are ineligible for duty-free access to the U.S. market under the GSP program, further detailed study should be undertaken.

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<sup>31</sup> The reservation wage is the wage level below which an individual would prefer to remain out of the labor market and above which the worker will decide to work.

<sup>32</sup> See Assaad (2007) for a discussion of various definitions of unemployment in Egypt.

<sup>33</sup> For example, in Jordan Razzaz and Iqbal find that “a combination of structural reforms and continuing distortions has generated incentives for Jordanian employers to invest in sectors which feature relatively low skill low wage jobs and, in these sectors, to prefer foreign workers to local workers. We also show that domestic workers have relatively high reservation wages, based on expectations of obtaining public sector or foreign jobs and of income support from families. More than 50 percent of the unemployed indicate that they are unwilling to take available jobs at prevailing wages.” (2008, p. 1)

# Annex A. Suggested Survey Questions

The following represents the breadth of interview coverage undertaken during the interviews held in August and thus represents a tentative list of topics to be covered by the follow-up survey team. Not all questions are asked of every company, depending on their answers to preliminary questions. For instance, if a company reports that it has not faced difficulties in complying with Egyptian export procedures, then further detailed questioning in this area will not be needed (except, perhaps, a more detailed follow-up to confirm that the original question was understood).

- **Decision to export**
  - Do you export, if so, why
  - If not, why not; identify & prioritize your company's biggest challenges to exporting or increasing exports
    - Identifying buyer(s)
    - Sufficient production capacity
    - Ability to source inputs
    - Ability to source Israeli inputs to meet content requirement of QIZ
    - Ability to satisfy EU origin requirements
    - Delivering on time
    - Developing/modifying product designs
    - Producing at the technical level required by client
    - Complying with social and environmental standards required
    - Other
  - In which exports do you engage: QIZ/US, non-QIZ/US, EU, or other
  - What are the advantages/disadvantages of selling into the US vs. EU markets
  - What is the relative proportion of domestic sales versus exports from your company
  - What is the relative proportion of US versus EU-directed exports from your company
  - How has this proportion shifted over the last three years
- **Trade & business policy issues**
  - Does your firm participate in exports as a
    - Public export processing zone company
    - Private export processing zone company
    - Industrial development zone company
    - QIZ company
    - One or several of the above
  - What benefits do you receive under each incentives regime
  - What procedures are required for you to gain access to these benefits
  - Is the QIZ arrangement attractive to you or not, why
  - How does your firm gain access to imported imports, i.e. under temporary admission, duty drawback, or other system
  - How well does the system work for your firm, what difficulties (if any) do you encounter
  - How easy/difficult is it to comply with US or EU customs requirements
    - Rules of origin

- Labeling
    - Other
  - How complicated is the environment you face for “doing business,” including public procedures for starting a new company, obtaining necessary licenses and registrations for domestic and international operations, access to land, hiring/firing of labor, etc.
- **Buyers**
  - Who are your U.S. buyers, with how many do you work
  - How well does your U.S. buyer understand the QIZ arrangement
  - Who are your EU buyers, with how many do you work
  - How well do your U.S. and/or EU buyers know Egypt
  - How did you develop these client relationships
  - What is the nature of the relationship with the buyers, in addition to business, what services do they provide to you (sourcing assistance, naming of nominated suppliers, technical production services, logistics services, customs services,...)
  - What services do you provide to them (design, product development, samples, sourcing, online interface, other,...)
  - What are buyers’ requirements and how easy/difficult to comply with
    - Order size
    - Product complexity
    - Sourcing, working with nominated suppliers
    - Quality requirements
    - Time to delivery
    - Price
    - Social compliance
    - Environmental compliance
  - Why does your buyer like to source in Egypt (price, quality, goods, labor, political, geography,...)
- **Ownership, Management, & Labor**
  - Ownership
    - Is this a public or privately held company
    - When was the company founded, by whom
    - Who is/are the owner(s), what relationship to founder
    - What is your education & professional background
  - Management
    - How is the company organized
    - How many managers, in which areas
    - What are their education & professional backgrounds
  - Financial management
    - What financial management issues concern your company
      - Access to working capital
      - Access to trade finance
      - Access to foreign currency; ability to convert foreign exchange earnings into Egyptian pounds
      - Access to investment capital
      - Other
  - Labor
    - Operators: Where do they come from, what ages, where do they live, how do they find their jobs
    - Skilled labor: Do you employ (and if so, how many)
      - Fashion designers

- Sourcing specialists
- Merchandisers
- CAD/CAM specialists
- Patternmakers
- Fabric technologists
- Industrial engineers
- Time-study technicians
- IT specialists
- Wash specialists
- How do you recruit new employees
- What training pre-employment or during initial hiring period do operators receive
- What other on-the-job training do you offer
- Can you find adequate supplies of workers
- What level of annual workforce turnover do you face (specify male vs. female)
- Are any of your workers non-Egyptian; if so, what is the proportion of non-Egyptian to Egyptian in your company's workforce and in which employment categories (cutters & sewing operators, line supervisors, management,...) are they employed
- Do you seek to increase the number of non-Egyptians working in your company, and if so, are there any restrictions to doing so
- What hours do they work, how many shifts operate per week, is overtime voluntary or mandatory, how is overtime compensated
- What is the total compensation arrangement for operators' regular and over time
  - Minimum/Base wage
  - Overtime pay
  - Attendance bonus
  - Quality bonus
  - Production bonus (e.g., piece rates,...)
- How do working conditions appear to interviewers (lighting, ventilation, space, cleanliness, availability of work breaks, rest/food areas, health services, treatment of workers by line leaders and supervisors,...)
- What additional benefits are provided by companies to employees (housing, meals, holidays, sick days, other paid leave, company celebrations, severance notice and/or pay, transportation to/from work, maternity leave, child care,...)
- What does the QIZ or labor law specify regarding QIZ workers' wages, wage increases, freedom of association, individual and collective dispute resolution,...
- Do workers in this factory belong to a union (or more than one union), if so, what share of workers belong, do they bargain collectively with employers
- If no union, how do workers and management/ownership collaborate to resolve issues that may arise, what sorts of issues are raised
- What is the level of collaboration/confrontation between workers and employers, how many days are lost in this company to illegal work stoppages or strikes
- What benefits are provided by unions to members (assistance with individual dispute resolution, collective dispute resolution, legal

services, training in labor rights, industry, skills, job location, job transfers/promotions,...)

- **Textiles/Garments Production**

- Size of operation
  - Number of employees (how many jobs have been created since the inception of QIZs in 2005)
  - Breakdown of male vs. female workforce
  - Largest possible size of production run or order
- Fashion/design
  - How do you follow international fashion trends, what do you read, what fairs/conferences attend, what travel abroad
  - Do you have in-house design, samples, patternmaking capabilities
  - Do you have in-house color, fabric, washes specialists
  - Do you ever work upstream with domestic or international fabric or trims producers to order special items
  - Does your company present its own collections to buyers
  - Does your company have its own brands for domestic or export market; if so, which
  - Does your company own the local franchise for international brands for the domestic market; if so, which
- Range of products made
  - Fiber, fabric, garments
    - Explore use of Egyptian vs imported raw cotton into spinning & weaving/knitting
  - Price points targeted
  - Other specific niches targeted
  - Are you considering diversifying into any non-RMG products in order to take advantage of the QIZ; if so, which products; if not, why not
- Origin
  - For QIZ
    - What inputs do you source from Israel and how easy/difficult to secure
    - How do Israeli prices compare with global suppliers; give examples
    - What inputs do you source from elsewhere and how easy/difficult to secure
  - For EU
    - What inputs do you get from elsewhere in the Mediterranean and how easy/difficult to secure
    - What inputs do you source from elsewhere and how easy/difficult to secure
  - Are Egyptian threads, fabrics, trims of acceptable quality for export
- Production costs
  - Operator wages
  - Electricity (is supply of electricity reliable)
  - Land (how easy/difficult is access to land for industrial development)
  - Other
- Against which benchmark countries are your production costs compared (by yourself, by your buyer), i.e. other Asian countries, other Mediterranean countries, other African countries, other U.S. FTA countries, other
- Production capital
  - Does your company presently have on site

- CAD/CAM equipment
- Patternmaking equipment
- Automated cutting systems
- Specialized sewing equipment
- Embroidery machines
- Silk-screening machines
- Testing laboratories
- Automated production tracking systems
- Specialized garment finishing facilities
- If textiles, water treatment facilities
- Other
- What IT and Internet infrastructure (hardware, software) has your company invested in, with what objectives
- Plans for new investment
  - New dyeing space
  - New production equipment (such as...)
  - New production lines (different fibers, fabrics, garment categories,...)
  - New production space
  - New training facilities
  - New IT and Internet infrastructure (hardware, software)
  - Other
- Quality assurance
  - What quality control procedures are used
  - What is % defect rate
  - How is quality assurance sensitivity instilled in workers, supervisors, managers
- Garment production engineering
  - Are any Egyptians trained in industrial engineering (general or garment industry-specific) and working in textile/garment industry
  - Do Egyptian garment factories utilize standard times to measure productivity of operators, lines
  - Do sewing operators know their times and is their compensation tied to production in any way
  - Are any expert companies (Egyptian or expatriate) working with factories to analyze, benchmark, upgrade their productivity
- Upper Egypt
  - Is your company considering opening production facilities in Upper Egypt?
  - If so, what advantages would that location offer you
  - What is the status of your consideration
  - What would such an investment require
  - What policy incentives would encourage your decision
- **Monitoring and inspection**
  - Do buyers send their own or independent auditors to factories to monitor conditions, and if so, how frequently
  - Does the Ministry of Labor send inspectors to factories to inspect labor conditions, and if so, how frequently
  - What items are on their checklists
  - What differences do you notice among the various inspectors, monitors, auditors

- How difficult is it for your company to comply with standards
- To what extent is monitoring/inspection corruption an issue for your company
- **Value-chain integration**
  - What commercial arrangements exist for sourcing fiber/fabric/trims from Israel, and how well do they work
  - What commercial arrangements exist for sourcing fiber/fabric/trims from other countries, and how well do they work
  - Do Egyptian companies exist that can supply thread, fabric, trims
  - Which is preferred, why, or is there no preference
  - Who handles global input sourcing: your company, offshore factory headquarters, intermediary agents, buyers
  - How often do Israeli suppliers meet with Egyptians or Egyptian manufacturers travel to Israel
  - To what extent do Israeli companies provide other services on behalf of their Egyptian clients
  - To what extent are you aware of foreign investors that might be moving into Egypt, from which countries
  - What advantages or disadvantages would their presence represent for you
- **Customs & shipping**
  - Are containers loaded/inspected/bonded at factory gate
  - How well does Customs work on the Egyptian/US/EU sides
  - How well does Container Security Initiative work in/through Alexandria
  - How quickly do containers clear Alexandria, Damietta, Port Said, other ports
  - Do you or does your buyer have a preference for the port through which you ship out of Egypt
  - What charges are associated with the ports
  - What is the ship time to the U.S. East coast
  - To what extent is port/customs corruption an issue for your company
  - How often are production delivery times missed, and for what reason(s)
  - Does your company ever need to ship by air
- **Government, professional associations, & donor support**
  - What services does Ministry of Trade & Industry's QIZ Unit provide to
    - Manufacturers
    - Investors
    - Buyers
    - Others
  - What services are provided by Egyptian private sector associations (Federation of Egyptian Industries, Chamber of Textile Industries, RMG Exporters Council...) to your company
  - What relevant services to this industry are provided by foreign investment or donor organizations
  - Have you ever used the services of the Industrial Modernization Center, and if so, what services, and how would you evaluate their utility to your company
  - What else would you like to take advantage of through the IMC
  - What is the current status of Israeli-Egyptian business coordination (professional associations, fairs, trade trips,...)
  - What have been dynamic trends for foreign investment into Egypt for QIZs
- **Production risks**
  - What other risks/constraints are of concern to you, in what order of priority
    - Macroeconomic
    - Political

- Weather
- Commercial
- Socio-cultural
- **Technical services**
  - What assistance would you like to receive to improve your ability to respond to international buyers
    - Marketing
    - Sourcing
    - Fashion trend analysis
    - Design training
    - Samples & patternmaking
    - Cutting room training
    - Production engineering
    - Operator training
    - Line leader/supervisor training
    - Other
  - What format of assistance would meet your company's needs (rank 1-5 in order of preference, 5=highest, 1=lowest)
    - Short-term training courses (1-3 days)
    - Medium-term training courses (1-3 weeks)
    - Longer term training courses (intermittent, over longer period of time)
    - In-house training
    - Training at an off-site center
    - In-house advisory services with training
    - Access to local university-based consultants
    - Access to local university students or recent graduates as interns
    - Other suggestions

# Annex B. Interviews Held

## Government of the Arab Republic of Egypt

Ministry of Trade and Industry

- Dr. Ali Awni, Director, Qualifying Industrial Zone Unit (012-231-6880, [ali.awni@mti.gov.eg](mailto:ali.awni@mti.gov.eg))
- Mr. Hassan Omar, Compliance Advisor, QIZ Unit (010-507-2501, [hassanomar@mti.gov.eg](mailto:hassanomar@mti.gov.eg))

## Textile and Garment Manufacturers

Arafa Holding (Tailored men's suits, casual wear, branded garments, + retail)

- Dr. Alaa Arafa, Chairman & Chief Executive Officer (2015-410-662, [aarafa@sgc.com.eg](mailto:aarafa@sgc.com.eg))

Cairo Cotton Center (Knit wear)

- Mr. Sayed Helmy, Customer Relation Manager (010-562-0041, [sayed\\_helmy@cairocotton.com](mailto:sayed_helmy@cairocotton.com))

Glass Co. (Men's woven bottoms, casual & tailored)

- Mr. Osama Heba, General Manager (010-538-6060, [osama\\_heba@glass-garments.com.eg](mailto:osama_heba@glass-garments.com.eg))
- Mr. Mohamed Mubarak, General Manager Assistant (010-549-4848, [mohamed\\_mubarak@glass-garments.com.eg](mailto:mohamed_mubarak@glass-garments.com.eg))
- Mr. Usama Gamal, Purchasing Manager (020-548-4455, [usama\\_gamal@glass-garments.com.eg](mailto:usama_gamal@glass-garments.com.eg))

Giza Spinning, and Weaving, SAE (Knit wear, children's, men's, women's, & household textiles)

- Eng. Fadel Marzouk, Director (890-0210, [fadel@gizaspin.com](mailto:fadel@gizaspin.com))
- Eng. Mohamed El-Shemerly, Compliance Manager (890-0210, [shemerly@gizaspin.com](mailto:shemerly@gizaspin.com))
- Ms. Aynur Arife Yorulmaz, Production Planning Coordinator (3890-0210, [aynur@gizaspin.com](mailto:aynur@gizaspin.com))

Maytex Co. (Casual wear, tailored men's suits)

- Mr. Nabil A. Zorba, Vice-President (550-6868, [nzorba@matextile.com](mailto:nzorba@matextile.com))
- Mr. Khaled Mourad, Merchandizing Manager (550-6868, [kmorad@maytextile.com](mailto:kmorad@maytextile.com))
- Mr. Hesham Moustafa, Business Development (010-877-9317, [hmoustafa@nilecc.com](mailto:hmoustafa@nilecc.com))

Misr-American Carpets (MAC) (Rugs, mats, wall-to-wall floor coverings)

- Mr. Alaa R. Hashim, Chief Executive Officer (015-410-417)

SalamTex (Technical & performance knit fabrics, laces)

- Mr. Hany A. Salam (02-269-888 30, [sales@salamtex.com](mailto:sales@salamtex.com))

Wagdy Moamen Weaving Mill (High quality woven shirting fabric)

- Mr. Sherif W. Moamen, Vice-President (012-312-1207, [sherifmoamen2002@yahoo.com](mailto:sherifmoamen2002@yahoo.com))

Yasmina for RMG Co. (High-end men's woven shirts)

- Mr. Medhat Ibrahim, Chairman (3381-0200, [mibrahim@yasminaegypt.com](mailto:mibrahim@yasminaegypt.com), [yas@link.net](mailto:yas@link.net))
- Eng. Hisham Amal, Planning & Commercial Manager (010-687-2987, [has@yasminaegypt.com](mailto:has@yasminaegypt.com))
- Ms. Suzanne Farid, Senior Merchandiser (016-263-9334, [sfa@yasminaegypt.com](mailto:sfa@yasminaegypt.com))

### **Agro-Industry Representative**

Farm Frites (French fries, green beans,...)

- Mr. Tarek Z. Tawfik, Managing Director (622-5069, [ttawfik@farmfrites.com.eg](mailto:ttawfik@farmfrites.com.eg))

### **Apparel Buyers**

Federated (Macy's)

- Mr. Maxim Jumat, General Manager (2639-2340, [maxim.jumat@macysos.com](mailto:maxim.jumat@macysos.com))

Target Sourcing Services (Target)

- Mr. Charles H. Smith, Managing Director (2735-4960, [charles.smithH@target.com](mailto:charles.smithH@target.com))

Warnaco (Calvin Klein, Ralph Lauren Chaps)

- Mr. Ahmed Awad, Logistic Coordinator (016-250-9997, [aawad@warnaco.com](mailto:aawad@warnaco.com))
- Mr. Wael Mansi, Merchandising Manager (010-079-2978)

World Trading Company (Levi's, Liz Claiborne, Columbia Sporting, etc.)

- Mr. Mohamed Kassem, Chairman (3302-6795, [kassem@wtc-egypt.com](mailto:kassem@wtc-egypt.com))

### **Business Sector Representatives**

Federation of Egyptian Industries

- Mr. Galal Al-Zorba, Head (2551-5670, [galal@nilecc.com](mailto:galal@nilecc.com))

Ready-Made Garments Export Council

- Dr. Alaa Arafa, Head (see above)

### **U.S. Government & Supported Activities**

Technical Assistance for Policy Reform II (TAPRII) Project

- Mr. José M. Cerón, Industrial Policy and Parks Subcomponent Lead, 012-641-8814, [jose.ceron@bearingpoint.com](mailto:jose.ceron@bearingpoint.com))
- Mr. Richard LaLiberté, Chief of Party (012-641-9111, [Richard.laliberte@bearingpoint.com](mailto:Richard.laliberte@bearingpoint.com))
- Mr. Steven J. Lee, Senior Business Advisor – Competitiveness (016-723-2078, [steven.lee@bearingpoint.com](mailto:steven.lee@bearingpoint.com))
- Mr. Alf Monaghan, Team Leader – Private Sector (012-641-8833, [alfmonaghan@eircom.net](mailto:alfmonaghan@eircom.net))
- Mr. David M. Spira, Deputy Chief of Party (012-226-0966, [david.spira@bearingpoint.com](mailto:david.spira@bearingpoint.com))
- Mr. Geoff Wright, Regulatory Advisor (012-020-0385, [geoff.wright@bearingpoint.com](mailto:geoff.wright@bearingpoint.com))

U.S. Agency for International Development

- Mrs. Manal El-Samadony, Senior Economist, EG/SPP (2522-6689, [melsamadony@usaid.gov](mailto:melsamadony@usaid.gov))
- Mr. Stephen Morin, EG

U.S. Embassy, Cairo

- Mr. John R. Buzbee, First Secretary, Economic Officer, U.S. Embassy (012-210-7891, [buzbeeJR@state.gov](mailto:buzbeeJR@state.gov))

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