



The Palestinian Garment & Textile Sector

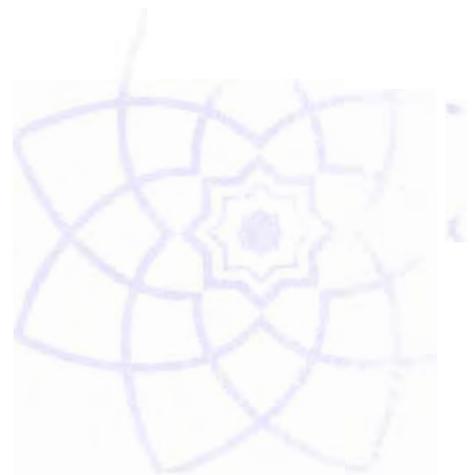
Sector Brief 2006

Prepared by

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In collaboration with

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1. Domestic Market Size & Demand

The textile and garment sector is considered to be an important economic sector in Palestine, with regard to employment, exports, production/output and investment. In addition, the textile and garment sector provides prospects for development and prosperity, should success factors be made available to it and opportunities seized. Available data show that this sector includes 19.7% of all industrial establishments, employs 31.5% of all industrial labor, and provides 13.5% and 16.4% of output/production and value added, respectively, in the industrial sector. Furthermore, this sector's net fixed capital formation forms 13% of all gross fixed capital formation in the industrial sector. The garment sector includes 41% of industrial workers in the Gaza strip & 20% of industrial workers in the West Bank.

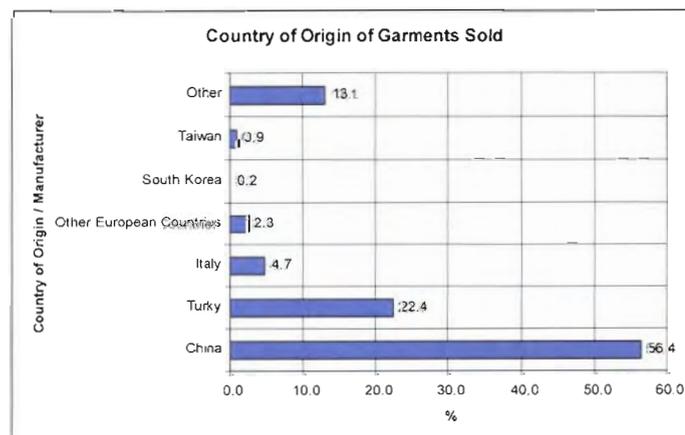


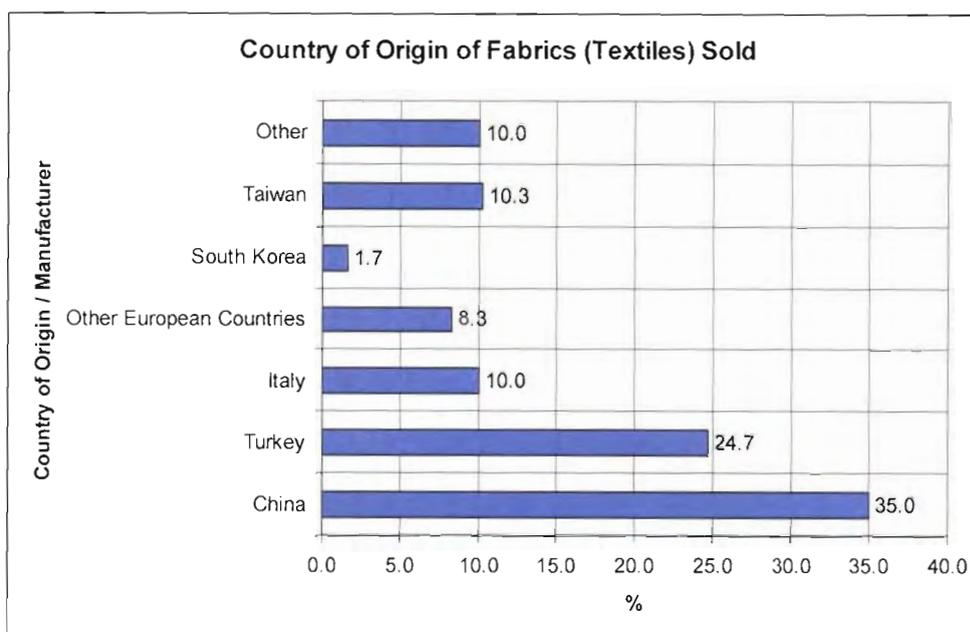
There are an estimated 17562 garment and textile workers, and 2753 manufacturers in the West Bank and Gaza, mostly in garments, who contribute approximately 14% of Palestinian manufacturing output. The sector is made up primarily of small-medium companies with the flexibility and capacity to accommodate various order sizes according to customer specifications and needs. The sector also includes several larger firms with higher capacities and certifications to international quality. Palestinian firms produce primarily for Israeli buyers, either for consumption in the Israeli market or export, as well as for the local market. Small but growing quantities are exported directly to overseas buyers.

The situation of the garment and textile sector in Palestine is vulnerable, due to the fact that 95% of the companies are only subcontractors to Israeli manufacturers. Demand is falling due to the fact that many Israeli manufacturers are either turning to importing their products, or ordering them from abroad. The producers who are still in the market are there because their quantities are too small for import, or because they have special demands like the religious sector. The garment and textile sector has lately been experiencing a fast declining trend due to the bad political situation and its adverse effect on the Palestinian economy.

This situation has created a state of more supply than demand as far as the Palestinian subcontractors are concerned, which, in its turn, pushed the prices down to such a point that is threatening the livelihood of a sector which is the second largest employer in the Palestinian territories. This situation is not new, but has been growing steadily to the worse since 1996.

Main suppliers of garment to the local market are China and Turkey, were their sales percentages in the local market are estimated at 56.4%, and 22.4% respectively, which basically indicates dominance of these suppliers for the local market. As for textile suppliers, China and Turkey are also the main suppliers to the local market, yet at smaller percentages of 35% and 24.7% respectively.





2. Products and services

Palestinian producers manufacture wide range of products including circular knitwear (including underwear and other products), denim products, terry cloth, bed linens and other institutional and home textiles, and socks. The quality is high as is attested to by the presence of some of the world's best-known brand names on products exported under license to Israeli agents, including Macy's, Calvin Klein, John's New York, Esprit, Casual Corner, Marks & Spencer, JC Penney, and GAP. The textile and garment industry is in the process of redefining itself under international competitive pressures and revitalizing its trade relations with Israeli clothing companies who represent its primary market base.



The categorization of local production based on the HS classification is illustrated in the following table:

1	61	Articles of apparel, accessories, knit or crochet
2	62	Articles of apparel, accessories, not knit or crochet
3	6302	Bed-linen, table linen, toilet linen and kitchen linen of all types of textile materials (excl. floor-cloths, polishing-cloths, dish-cloths and dusters)

Raw Material Supply; only a small percentage of existing establishments (12%) obtain raw materials from the local market, and the majority import raw materials. Israel is the most important market from/through which raw and semi-manufactured materials are imported. 93% of establishments import raw materials from Israel and 14.6% through Israel. Through Israeli agents, raw materials are imported from China, Turkey, India, Taiwan, South Korea and other countries, in that order.

3- Sector Output & Capacity

The total output of the garment and textile sector is estimated at US\$ 70 million in the year 2004, however the output is changing based on the local market purchase power and the accessibility to export markets, the output of the sector through the last four years is illustrated in the following table:

Output (US\$ Million)	Year			
	2001	2002	2003	2004
Total output (WBGS)	96	67	83	70
West Bank output	43	29	37	31
Gaza Strip output	53	29	37	31

It is difficult to assess the export capacity of the sector since most companies in the textiles and the garment sector are subcontractors to Israeli companies who export the Palestinian product under Israeli tags. However, a number of companies have succeeded in exporting directly to the US, Europe and Arab Countries. Products exported to Europe are mainly denims, circular units and children's wear. T-shirts, cotton shirts, men's wear and ladies wear are also exported to a number of countries in Europe, the US and Arab Countries such as Jordan, Kuwait and Egypt.

Production Capacity; the garment industry has invested in unused production capacity, as establishments invest in facilities larger than what demand can fulfill. This means that production facilities are underutilized and that production is carried out at an average cost higher than what would have been if establishments operated in a fully-competitive environment. 75% of all establishments in the garment industry utilize 60% of their production capacities, and 20% of them utilize only 25% of capacity. In general, 50% of establishments utilize 40% of production capacity. Should these establishments be able to export, they would be able to expand market share, increase utilization and reduce average costs. The same applies to establishments in the textile industry, as their production capacities are similarly underutilized.

Furthermore, the number of work shifts highlights the scale of the underutilization problem, as more than 90% of factories operate on a one shift / day basis, meaning that they utilize one third of production capacities and this is caused not only by limited market size, but also political instability and the lack of security, especially at night.

Production Technology Availability; despite the fact that Japan is the most important supplier of production technology, Israel is considered the second, with 30% of textile and garment establishments reporting it as a source of their production technology. Germany follows Israel in this regard, as 29.3% of factory owners report that Germany is the source of their production technology. It is interesting to see that Israeli production technology is more wide-spread than German, and this seems not to be determined by technical aspects of the production technology used, but rather seems to be determined by the availability of the technology/sales agents selling the technology in the West Bank and Gaza Strip.

Trends of the sector (Palestinian – Israeli Cooperation); the sector has witnessed major developments over the past 35 years, at the different technological, economical, and social life levels. The development of the Israeli garment and textile sector over the past 35 years was positively reflected on the Palestinian sector, were the Palestinian–Israeli subcontracting relationship has grown to become a successful relationship. Since then, the Palestinian sector has significantly gained from the technology and know-how transfer, and that was reflected on the macro-economic growth.

Prior to the outbreak of the first Intifada (end-1987), substantial part of Israeli-made garments were sewed in Palestinian sewing-plants. However the position of Palestinian sewing-plants

weakened over the 1990s, as a result of deteriorating political & security conditions. This was compounded with the fact that the openness & globalization of Israeli garment-industry enabled many Israeli garment & textile producers to move their production operation to other low- labor-cost countries such as China or Turkey.

However despite these two factors total pre-Intifada Palestinian exports of sewing services to Israel (1988 – 2000 average) are estimated at US \$80-100 million, in addition to US \$25–40 million exports of finished garments and other textile products. Though by, 2005 estimates are 20% - 25% lower.

It is important to put the current deteriorating situation regarding bilateral trade between Israel and Palestine into perspective in order to appreciate that it there had been an important trading relationship between the two and that therefore it is possible to rebuild and to improve it.

Israeli Demand for Palestinian Production:

Despite the globalization of the textile-garment industry, Palestinian sewing-plants are still vital for hundreds of Israeli producers, such as:

- Producers of high-end fashion products (These firms produce by small series, and need highly-qualified sewing houses that work under their close supervision, which cannot be done with overseas production)
- Producers in the "Proto Moda" sub-sector (This business is characterized by extremely short response-time to market changing requests, which dictates production of relatively small series, and quick design & production cycles)
- Small businesses that do not have the financial, logistic, or professional capabilities for initiating and sustaining production abroad.
- Moreover, many of the large producers that have established vast global production systems, need "local" supplementary production facilities (mainly for small series; urgent, un-planned requests of customers, etc.).

So, Even though many Israeli firms have stopped using Palestinian sewing-plants as a major part of their global production system there still is a clearly a substantial "suppressed" demand for Palestinian sewing services, indicating to a great potential of renewed cooperation and the possibility of re-building this business relationship to what it used to be and maybe even further than that.

"Qualified Industrial Zones" are a type of Business protected environment.

In Jordan where the trilateral American-Jordanian-Israeli QIZ agreement gave birth to a brand-new garment export industry, which, in a few year has become a US \$ 1.25 billion industry. QIZ have also had success in Egypt where the new 2004 Egyptian QIZ agreement seems to have be even greater success (probably because of the well-established Egyptian textile infrastructure and tradition) than in Jordan.

The Palestinian Authority has good chance to succeed in developing a large US & EU-export-oriented garment industry as well if it develops and an appropriate QIZ-style arrangement with attention to the specific conditions of the Palestinian situation. The Turkish initiative regarding Erez Industrial Estate is only one indication to the attractiveness of this opportunity for international garment-business players.

The basic idea of QIZs is to create some kind of special, separate environment in designated "Zones" that will provide international garment players with secure and attractive conditions for their business.

Once the legal basis is in place, and the other elements of the required security and economic conditions are taken care of, private-sector development-and-management companies can open such zones for business very fast.

Israel and the Palestinian Authority must build on the Jordanian and Egyptian experience. If they do one can estimate the garment-export potential of 4-5 such Palestinian Special Industrial Zones (2 in North and South/Central Gaza plus 2-3 in the West Bank) at around US \$ 1 billion in 5 – 10 years.

4. Sector Structure

The making of any industrial product comprises three phases: product design, production and marketing. Subcontractors do not have the capability of covering all steps; therefore they focus only on the middle part that is production. In the textile sector, production is made of three steps called CMT: cut, make and trim. Most Palestinian subcontractors have not developed the capability of carrying out the whole production process, and their work is often limited to the second and third steps, that is making and trimming. Obviously, these are the most labor-intensive and the least profitable parts of the whole process, since they provide a small amount of value added. The cutting of the cloth for making a garment requires more skill than the sewing of the different pieces, and that is why the value added to the inputs by the cutting step is higher than that added by the sewing. Moreover, the majority of Palestinian firms are completely unprepared to deal with phase one, product design, and phase three, marketing. These are the most remunerative parts of the whole production process, and they are firmly in the hands of Israeli enterprises.

Concerning the geographical location of the Palestinian textile districts, they may be identified in six areas of the West Bank and Gaza Strip: Tulkarem, Qalqiliya, Nablus, Bethlehem, Hebron and Gaza City. In Bethlehem and Hebron there are several firms equipped to carry out the whole manufacturing process, while in the other districts the large majority of firms limit their activity to the sewing and trimming phases.

Palestinian textile enterprises are characterized by their small size. According to a survey realized by MCS in October 2004, the production capacity of most Palestinian firms does not exceed 500 pieces per day. Most garment companies are family-owned, and the owner is often responsible for all managerial, technical and financial operations; quite often the owner not only supervises the manufacturing process, but also participates directly in the production activities.

In the Gaza Strip, and particularly in Gaza City, most of the workers are men; in other cities such as Khan Yunis and in the West Bank the workforce consists mainly of women. Women are generally paid significantly less and do not remain long in the same job.

The equipment is generally limited to sewing machines, and only a few factories possess design and pattern-making tools, or modern machines for cutting the fabric. This evidence confirms the subcontracting-based structure of the local textile industry.

Although subcontracting can be lucrative, it covers the least profitable stage in the garment production process, and it does not provide opportunities for development. Subcontracting means confinement: it guarantees survival without permitting investments, keeping Palestinian firms on a leash. Moreover, subcontracting agreements do not guarantee long lasting employment opportunities: orders are placed on a case by case basis, and they may be renewed or suspended at the request of the manufacturer. The subcontractor has almost no bargaining power.

As for the invested capital of the sector, it is clear that no less than three quarters of the existing textile and garment establishments have capital of less than \$US 100,000.

Number of Establishments by Investment Capital

Invested Capital	% of Total
Less Than \$US 100,000	%77.8
\$US 100,000 - \$US 1 million	%19.7
\$US 1-5 million	%2.5

5. Employment / Human Resources

Local establishments employ 2.1 persons on average as unpaid family members (8% of the average total number of workers in establishments), 1.79 persons on average in administrative functions (7.5% of the average total number of workers in establishments), 9.42 persons as skilled laborers (39%), 5.81 persons as semi-skilled laborers (25%) and 4.45 persons as unskilled laborers (19%). It appears that employment in the textile and garment sector depends on a high intensity of skilled labor involvement, due to the need to deal with machines. In addition, the capital intensity of work in this sector is \$US 1765.

The average total number of workers is between 1 (the owner) and 90 workers, with the median/establishment reaching 17 workers. It is clear that this industry is characterized by the small number of workers / establishment, despite the fact that there are relatively-large establishments.

Managerial Systems Used. The afore-mentioned structure of establishments of the textile and garment sector has an effect on the managerial systems used. Management in establishments of the textile and garment sector is not dedicated /specialized, and is run by families; the owning family runs the establishments based on its experience and relationships more than on managerial/systematic knowledge. This means that the owner searches for possible contracts, studies and signs them, contracts raw, semi-manufactured materials and accessories, contracts workers, determines salaries, contracts consumers, both retail and wholesale, subcontracts to Israeli firms, and runs daily operations that include assigning tasks and disbursing and collecting payments. There is more specialization in larger establishments, but this specialization is not complete, as one or two managers perform numerous managerial tasks. However, these management systems are not unusual, and are suitable for the small-sized establishments.

6. Value chain

The following schematic captures the garment and textile sector's value chains. Since 95% of local manufacturers work as subcontractors for Israeli and international companies, hence, local production is made of three steps called CMT: cut, make and trim. The following is a sample CMT value chain scheme for a POLO shirt manufactured in Gaza.



Total CMT process = 12 minutes (each minute is estimated at US\$5.25)

7. SWOT Analysis

Strengths of the garment and textile sector are mainly demonstrated in the accumulative experience in producing for international brands, the high quality of local production and competitive prices. Strengths are also exemplified in the experience of local producers in subcontracting and supply chain management, and the availability of skilled labors.

Weaknesses are in the structure of the industry that is mainly horizontal, most Palestinian firms carry out only the lowest value-added parts of the production process; the current external border regime, represents a high obstacle for exporting finished goods, importing raw materials, the Palestinian textile market cannot afford being closed, since the internal demand is not enough to balance the supply and employment needs; the credit market does not represent an effective resource for promoting new investments;

Opportunities are foreseen in the development of products' quality and design norms, while upgrading the production and managerial capacity to meet the upper segments' requirements. Investment to promote exports to world markets; free trade agreements with the Arab countries and others.

Threats, Increasing competition with low-priced products from the Far East, particularly China, poses a threat to the Palestinian sector. Unreliable and costly inbound and outbound logistics due to border control and current political instability are threats to the competitiveness of the sector.

8- Conclusion and Recommendations

Based on the conducted SWOT analysis, and in response to revealed results and constraints, and after consultation with the sector stakeholders, the following development priorities for the furniture sector in Palestine were identified:

A- Institutional Level:

- Develop and consolidate cooperation amongst PalTrade, the Textile Industries Association and Sewing Factories' owners Union, and pool resources to develop, promote and implement sector development strategies and activities.
- Organization of specialized infrastructure trainings in the fields of; financial planning and control systems, quality control and information management.
- Organization of training programs and seminars, focused on:
 - a. Design concepts, management and control.
 - b. Production management and control.
 - c. Costing and price optimization.
 - d. Export procedures & requirements.
 - e. Business practices and communication.
 - f. Exhibiting practices and opportunities.
- Develop and conduct marketing studies and match-making initiatives within target markets, to include market / product testing, B2B meetings, market intelligence and information and contacts' initiation with specialized marketing firms.
- Assist in improvement of export logistics and movement of goods through crossings and develop & maintain free accessibility to crossing terminals.
- Development & amendment of Free Trade Agreements to promote joint cooperation

B- Producers' Level

- Establishment of competent local buying offices for promotion and distribution of local production in target markets.
- Encourage and plan subcontracting and joint venturing initiatives between local manufacturers and international firms.
- Invest in projects to integrate the production cluster.

9- Resources:

- 1- Interviews and meetings with:**
 - a. The Textile Industries Association (West Bank)
 - b. The Sewing Factories Owners Union (SFOU - Gaza)
 - c. The Textile Industrial Association (West Bank)
- 2- "Current status of the garment industry in Israel and its effect on the garment industry in Gaza strip", EMCC, Gaza, May 2005**
- 3- "Textile and Garment Sector Study", Bir Zeit Consulting Company (BCC) and EMCC, Palestine, April 2005**
- 4- "The Weak Fabric of the Palestinian Textile Industry", Andrea Merli, Bethlehem, May 2005**