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Sector Report: Textiles and Garments in West Bank/Gaza

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TO THE

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Introduction

The clothing and textile industry is one of the key sectors of Palestinian industry and the second largest employer in the West Bank and Gaza after construction. It accounts for 18% of manufacturing establishments and almost 30% of all manufacturing employment. The clothing and garment industry in West Bank/Gaza produces \$US 126 million in revenue (15.3% of industrial gross output) with a value added of \$US 79 million dollars (21.9% of total industrial gross value added).

The industry is composed of a very large number of unregistered firms, with hundreds of small enterprises working from home. It is generally characterized by very strong subcontracting agreements with Israel, and is thus dependent on the Israeli market. The political situation, therefore, has a great effect on the industry.

The Textile and Garment Industry in West Bank/Gaza

A. Numbers and Locations of Palestinian Textile and Garment Factories

There are approximately 1700 factories producing textiles or sewing garments in the West Bank and Gaza Strip. Around 680 firms (40%) are located in Gaza, while the remaining 60% are mainly located in northern West Bank cities, including Nablus, Tulkarem, Jenin and Qalqilya. The number of textile factories is approximately 270, with the highest concentration in the Nablus area (around 82 factories) followed by Gaza (around 60 factories). Due to the strong ties with the Israeli garment sector, the sector witnessed a sharp rise in the number of establishments during the 1980's and 1990's. This surge in demand was due to the establishment of the free trade agreements between Israel and the European Union and Israel and the United States. Industry surveys show that 4% of Gazan factories were established during the 1960's, 7% during 1970's, 47% in the 1980's and 42% in the 1990's.

Table 1: Geographical Distribution of Establishments

Location	No. of textile factories	No. of garment factories
Jenin	11	75
Tulkarem	7	120
Qalqilya	6	30
Nablus	82	280
Ramallah	22	75
Jericho	7	10
Bethlehem	32	40
Hebron	41	100
Gaza	60	700

Source: Garment Industry Cluster, MOPIC, August 1998

B. Ownership

The majority of establishments (70%) are legally considered as sole proprietorships, while the remaining 30% are registered as partnerships. The type of ownership in this industry is a reflection of the size of the establishment and its subcontracting ties with Israel.

The majority of establishments are considered either as micro or small enterprises in terms of number of machines and number of employees per establishment.

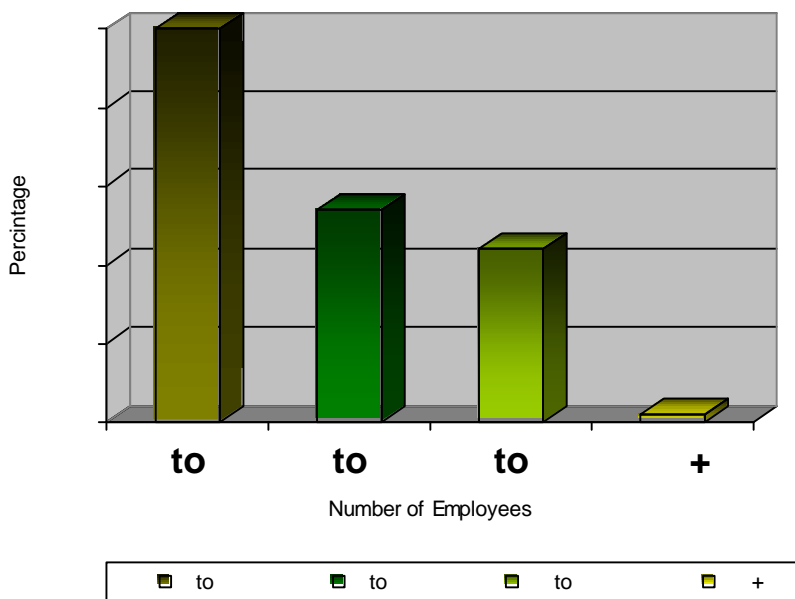
Table 2: Number of Machines per Factory

No. of Textile/ Garment Workshops	Average No. of Machines / Unit
1308	4
376	16
16	80

Source: Clothing and Textile, Strategic review and assessment of needs, CPED, September 1997.

In terms of classifying the establishments, based on the number of employees, micro scale establishments constitute the dominant segment of the industry. Around 50% of the establishments employ between 1-4 workers, 27% employ between 5-9 workers, 22% employ between 10 and 49 workers, and only around 1% employs 50 or more workers.

Figure 1: Establishment size based on the Number of Employees



C. Product Varieties and Characteristics

A wide range of garment and textile items is currently being produced in the Palestinian factories. Items include children’s wear, t-shirts, trousers, dress shirts and denim. There are 8 stages of production in garment manufacturing:

1. design
2. cutting
3. sewing
4. pre-washing
5. ironing
6. packaging
7. marketing
8. distribution

Regarding the strong subcontracting ties with the Israeli contractors, most manufacturers in the Gaza Strip and West Bank are involved in stages 3-6. These stages are characterized by labor-intensive operations and very low profit margins. The Israeli contractors are in control of the design, marketing and distribution, which are all characterized by high profit margins and total control of marketing operations. It is also worth noting that around 60% of the total cost is used for fabrics. In terms of technology, Palestinian companies continue to rely on traditional production methods by using electric sewing machines. A small number of the large Palestinian companies have introduced computer aided production methods.

D. Labor Issues

The labor issues are of extreme importance to the development of the textile and garment industry in West Bank/Gaza. Cheap labor has led the Israeli manufacturers to use Palestinian labor within Israeli-owned factories and has encouraged the establishment of Palestinian subcontracting companies in the West Bank and Gaza Strip. Additionally, labor rates and wages are very important determinants for international firms seeking new production locations.

The garment and textile industry is considered to be one of the largest employer in the Palestinian economy. The official industry employment figure is approximately 13,000 workers, although the unofficial employment figure is almost double that number. This ambiguity is a direct result of the existence of hundreds of small, home-based operations.

While competition in high value-added segments of the garment industry focuses more on quality than in the mass-market segments, production costs, including labor, remain an important factor for competing in the local and international markets.

The West Bank and Gaza Strip wage structure is far lower than Israel's, but remains somewhat higher than neighboring countries, including Egypt and Jordan. Additionally, semi-skilled wage rates are substantially higher than those found in South East Asia.

Table 3: Wage Rates in Garment Industry (US \$/month)

	Egypt	Jordan	WB/G	Israel
Unskilled	80	140	200	650
Semi-Skilled	100	200	300	1,000
Skilled	250	500	400	1,500

Source: Garment Industry Cluster, MOPIC, August 1998

Productivity rates for Palestinian labor are much lower than Israeli labor, but lower wage rates have compensated for the lower productivity and ensured that Israeli companies continue to employ Palestinian laborers and companies. As for the neighboring countries, Egypt and Jordan, Palestinian workers may still be competitive in terms of productivity, but the higher wage rates may prove to be a disadvantage and thus, production may well shift to Egypt and Jordan by the Israeli companies. (Source: Garment Industry Cluster, MOPIC 1998).

E. Sales and Market Share

Between 80% and 90% of the garment and textile establishments in the Gaza Strip and West Bank work as subcontractors to Israeli companies. The cheap labor, easy communications and fast delivery of raw materials and end products are all factors conducive to this type of relationship. These subcontracting arrangements have limited the Palestinian contribution to the overall production process primarily to sewing, finishing and packaging. The Israeli contracting companies control the high value-added activities such as design and marketing.

Roughly 80% of Palestinian products are sold in Israel, while 15% are sold in the local market (which represents approximately 20% of the local market share). Five percent is directly exported to international markets. A significant percentage of Palestinian production that goes to Israel is exported to international markets under Israeli brand names.

The clothing and garment industry in West Bank/Gaza has a sales volume of \$126 million. Despite its large share in the Palestinian economy, the industry remains small in the regional context. The sales volume, for example, of the Israeli garment and textile industry is just under \$3 billion. Egypt exports \$850 million of textiles and garments per year.

The supply side of the industry such as fabrics and trimmings is not well developed in the Palestinian market. There are no major Palestinian suppliers of the different raw material and accessories required for the industry. Traditional reliance on Israeli suppliers is still strong, and has led some experts to conclude that West Bank/Gaza does not have a clothing industry but rather a cut, make and trim industry.

The shift of Israeli interest from the West Bank and Gaza to Jordan and Egypt is due to cheaper labor rates, a worsening security situation and the difficulties encountered in the movement of goods to and from the Palestinian-controlled areas. According to MOPIC's Garment Industry Cluster study (1988), some Israeli manufacturers are moving some of their operations to Jordan and Egypt. Official data indicates that there are at least 15 Jordanian companies that have some subcontracting arrangements with Israeli manufacturers. The report adds that the unofficial figures suggest that many Jordanian manufacturers have been contacted by their Israeli counterparts.

F. Local and International Markets

World garment consumption has shown a high growth rate, rising from \$39 billion in 1980 to \$150 billion in 1994. Developed countries lead high-end apparel imports. The major world

markets for high-end apparel products are developed nations, led by Europe, the United States and Japan, which together account for 85 percent of total world imports.

The United States imports the majority of its apparel from three main regions: Mexico and the Caribbean, Asia and Europe. Mexico is largely focused on the production of mass-market products, while Europe and increasingly Asia, are sources of the higher end market products.

Free trade agreements between the Palestinian occupied territories with the United States and Europe provide it with a favorable factor for exports and investment by foreign companies. Despite that, the volume of goods exported and the number of exporting companies remains small.

It is difficult to assess the export capacity of the sector since most companies are subcontractors to Israeli companies exporting Palestinian products under Israeli brand names. However, a number of companies have succeeded in exporting directly to the US, Europe and surrounding Arab countries. Products exported to Europe are mainly denims, circular units and children's wear. T-shirts, cotton shirts, men's and ladies' wear are also exported to a number of countries in Europe, the United States and Arab countries such as Jordan, Kuwait and Egypt. Some of these companies are:

Al-Huda Company, Abaco. and *Joines* export denims, shirts and children's wear to England, Sweden and Germany.

Hamdan Co. in Gaza exports T-shirts and underwear to Germany and the United States
Abdo Company for Trade, Gaza exports cotton overalls to the United States, Egypt and Dubai and Israel.

Bilal Company in Gaza exports shirts to Egypt, Dubai, Iraq, Jordan, Tunisia, Syria and the United States.

Zahrat Yafa exports shirts, men's wear, and ladies' wear to Germany, the United States, and Israel.

G. Export Potential

The majority of the garment and textile companies in West Bank/Gaza is heavily dependent on subcontracting agreements with Israeli companies, and is only involved in the low value-added production cycle. Therefore, it might be feasible to develop the sector into a more export-oriented industry. Some of these companies can be transitioned gradually to more profitable value-added export businesses.

The industry has to move into differentiated, added value, high quality products, offering superior quality through heavy investment in technology accompanied by an equal investment in improving managerial and labor skills. Building on the subcontracting capacity that currently exists within the sector, in conjunction with examining the possibilities of joint venture agreements with international and Israeli companies, may prove a successful formula for the sector.

A number of issues and obstacles hinder the growth of the sector including:

1. The political situation and continuous closures and restrictions placed on the movement of goods
2. Lack of access to and information about international markets
3. Depressed local market demand
4. Total dependency on Israeli subcontracting
5. Quality control issues.

Associations

A. West Bank/Gaza Textile and Garments Union

Three established industry associations are currently in the process of uniting to represent all aspects of the industry in the West Bank and Gaza Strip. The combined memberships of these associations total approximately 720 different companies, all with at least 10 sewing machines. The association in Gaza has reported a significant drop in membership. In 1999 the number of members was around 800. In the year 2002, only 360 members have paid their dues.

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