The Impact of Phasing-out Textile Quota on the Egyptian Textile and Clothing Sector (Case studies from Alexandria)

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Abstract: Quantitative restrictions on "Textile and Clothing" (T&C) trade were completely removed in January 2005. Consequently, Egyptian T&C exporters have lost the quasi-guaranteed market access to the "European Union" (EU) and "United States" (US) markets and they became subject to fierce competition in global market. This research aims to empirically investigate the effect of quota abolishment on the Egyptian T&C sector during the period 1995-2008. Quota phase-out had a negative effect on exports especially to the EU market. However, liberalizing T&C trade was not the only factor causing the declining trend of exports, as several domestic and international challenges facing the sector led to reduced competitiveness. Those results were proved by a number of case studies using some of the T&C companies in Alexandria as a sample. The results of this research provide guidelines for a development strategy to flourish the sector.

Keywords: Egypt; quota phase-out; textile and clothing

1. Introduction

Egypt is one of the main T&C players in the Mediterranean Region, it has a vertically integrated textile industry; the whole production process, from the cultivation of cotton to the production of yarns, fabrics and ready-made garments, is carried out domestically. Moreover, Egypt enjoys comparative advantages over other textile producers in the Mediterranean Region due to the availability of high quality cotton and low cost labor. Egypt's textiles workers, for example, earn only 47% and 36% of the salaries of their Tunisian and Moroccan counterparts, respectively (Ministry of Investment, 2008).

The strategic nature of the textile industry in Egypt is derived from its large size in terms of production, employment and exports' earnings. The T&C sector contributed about 26.4 % to Egyptian industrial production in 2008. It is the largest industrial employer in the country, accounting for about 27% of total manufacturing employment in 2006. Egypt exported about $ 1.2 billion of T&C products in 2006/07, accounting for 10% of the country's non-oil exports of that year (Ministry of Trade and Industry, 2008).

Both of the US and the EU are Egypt's main export partners; their combined share of Egypt's T&C exports had reached 86% in 2004, this explains why phasing-out quotas imposed under the "General Agreement on Tariffs and Trade" (GATT) presents a great challenge to Egyptian exporters.

This paper investigates the impact of the "Agreement on Textiles and Clothing" ATC's lapse on the Egyptian T&C exports by analyzing the evolution of T&C exports during the ATC period and evaluating performance after trade liberalization. In addition, nine case studies were conducted using public and private companies in Alexandria, together with a set of interviews with key informants in the sector in order to reveal changes in the performance of those companies after quota's phase-out and highlight the major challenges facing them.

2. Background

Trade in T&C has long been restricted in developed countries and remained outside of the normal GATT discipline for decades until the Uruguay Round (1986-1994), when the ATC was reached to phase out quotas; setting a timetable for a gradual elimination of T&C quotas over a 10-year transition period ending on January 1, 2005.

A number of studies were done to analyze the effect of quota abolishment on T&C exports of Arab countries. Two studies were conducted to evaluate the early impact of quota abolishment on the T&C sector in Egypt, Jordan, Morocco and Tunisia (MENA-4), with a focus on Egypt (World Bank, 2006; Egyptian Centre for Economic Studies, 2006). Both studies showed that one year after expiration of the quota system, the T&C sectors of all MENA-4 countries lost ground in the EU market. Nonetheless, in the US market, Egypt (and Jordan) experienced impressive export performances after quota removal; this was largely attributed to signing the "Qualified Industrial Zones" (QIZ) protocol between Egypt, US and Israel. However, QIZ benefits would diminish over time due to the proliferation of free trade agreements that the US is signing, this implies that the preferential treatment of Egyptian exports will be eroded. Moreover, the QIZ does not solve the main supply-side problems of the industry, which range from the poor cotton pricing policy to the lack of investments and ill marketing strategy.

According to Magdner (2005), T&C industry in Egypt has several strengths that could play a major positive role in Egypt's economic development; however, its neighboring countries; Morocco and Tunisia - with much smaller economies and labor forces - are exporting significantly more T&C products than Egypt. Other countries as well, particularly China, pose a more competitive threat especially after quota phase-out.

Most of the studies conducted to analyze the impact of ending the T&C quotas on Egypt's exports' performance focused their evaluation only on the first year of the free trade era. Those studies didn't empirically examine the major problems facing T&C producers in Egypt. The policy options suggested by most of those studies were general and did not explain the relevant tools for their application. Furthermore, almost all of the conducted researches did not differentiate between the trends of exports of textile products and clothing products, although both industries vary in nature and in the export performance.

3. The impact of quota elimination on the Egyptian T&C exports

This section investigates the impact of the ATC's lapse on the Egyptian T&C exports by analyzing the evolution of T&C exports during the ATC period and evaluating performance after trade liberalization (1995-2007). Since the "Central Agency for Public Mobilization and Statistics", Egyptian official statistical agency, had changed the way of collecting data and added "Free Trade Area" FTA's exports to the recorded data sets starting from the year 2008, the analysis will end in 2007 as the data comparison for the years before and after this year would be misleading.

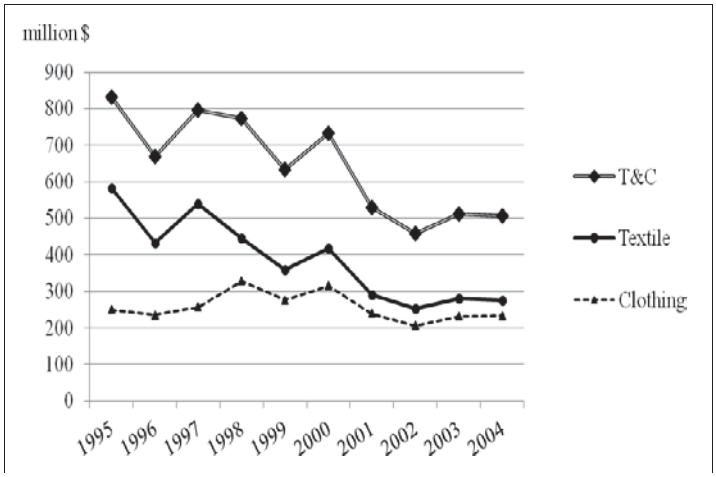
To give an accurate analysis of the effect of quota abolishment, raw materials exports (raw cotton and raw linen) were excluded as they were not covered by the ATC. Moreover, the EU (15) is the focus of this study, as the EU enlargement started in 2004.

3.1. Egypt's export performance during the ATC period (1995-2004)

Annual fluctuations in the export value of T&C products moved in tandem with total non-oil exports during 1996-2004, although falls were more acute for T&C products. The overall performance of T&C exports since 1996 had been weak, showing a negative "Compound Annual Growth Rate" CAGR of 2.5% over the period 1996-2004. This was very modest in comparison to total non-oil exports, which grew at a CAGR of 8.5% over the same period. Also, T&C exports experienced a fall in their relative importance in Egypt's foreign trade, to comprise only 11% of non-oil exports in 2004, down from 36% in 1996.

Over the period 1995-2004, textile exports (including spinning, weaving, knitting, furnishing, floor covering, and home textiles) exceeded that of clothing as shown in Figure 1. However, there was a significant increase in the share of clothing exports in total T&C exports; from 30% in 1995 to 46% in 2004, despite the decline in both of them.

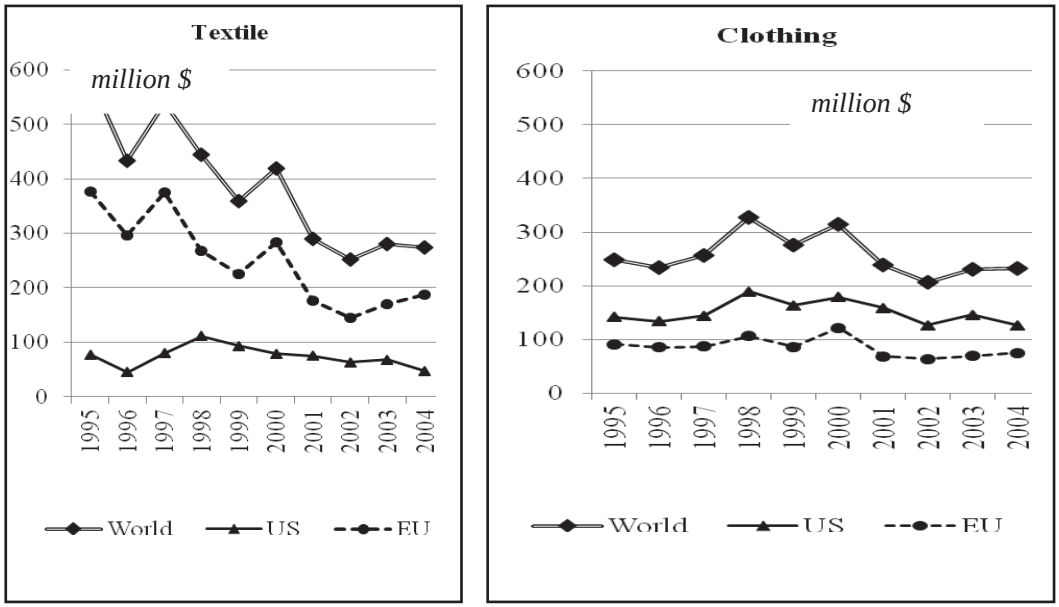
Figure 1. The Evolution of T&C Exports to the World (1995-2004)



Source: *International Trade Point, Egypt.*

The EU is Egypt's number one textile export destination followed by the US, in contrast, the US is the largest trading partner for clothing exports as shown in Figure 2. This confirms the important differences between the EU and the US markets as the EU market requires a higher degree of customization of their orders to the needs of customers with several fashion adjustments even within a single season and the Egyptian clothing exporters are not in pace with those changes (World Bank, 2006).

Figure 2. The Evolution of T&C Exports to the World, EU and US (1995-2004)



Source: *International Trade Point, Egypt.*

During the first two stages of the ATC (1995-2001) in addition to the year 2002, Egyptian T&C exports to the world suffered from three slumps;

In 1996, textile exports decreased by 25.6%, while clothing exports decreased by 5.6%. This decline was partly a response to the lifting of pricing restrictions on raw cotton in 1996 as part of Egypt's "Economic Reform Program", this led to an increase in cotton prices, and since cotton is the main raw material for T&C production in Egypt, the price of T&C products increased (WTO, 1999). Exports started recovery in 1997 - it approached the level of 1995 - as the government established the "Cotton Stabilization Fund" in 1996/1997 to face cotton world price volatility (Metwally & Elsayed, 2005).

In 1999, textile exports decreased by 19.4% and clothing exports decreased by 16%, the main reason for such decline was the "Asian Financial Crisis" and its delayed effect on Russia and Brazil. The crisis exerted a downward pressure on prices and heightened competition by diverting exports that would otherwise be going to Asia, Russia and Brazil to the EU and the US markets (Burr, MacDonald et. al., 1999).

T&C exports reached its minimum level in 2002, one reason for such decline was the September 11, 2001 attacks on the US that caused a sharp decline in world's trade, and consequently T&C exports were negatively affected (WTO Website). Also, China's accession to the WTO in December 2001 improved Chinese market access to the EU and the US markets substantially, resulting in intensifying competition in those markets (Refaat, 2006).

The same factors affected T&C exports to the EU and US markets, those two market's combined share of Egypt's textile and clothing exports during the period 1995-2002 was 84% and 92.7% respectively. It is noteworthy mentioning that such trend was not affected by the different stages of quota phase-out because none of the integrated quotas affected the Mediterranean countries until the end of the year 2001, the integrated products were either of little importance to the major importers (EU and US) or were not originally restrained by quotas (Kheir-El-Din and Abdel-Fattah, 2008).

The competitiveness of Egypt's exports was prompted by the devaluation of the Egyptian pound in 2003[1] (Ministry of Finance, 2004), therefore, T&C exports increased by 12%. Textile exports to the EU market increased by 17% while that of clothing increased by only 8%, the situation was reversed for the US market as T&C exports increased by 7% and 15%, respectively.

A fundamental change in Egypt's T&C exports to the EU market took place after the implementation of Egypt-EU Association Agreement" in January 2004. The agreement resulted in the elimination of quantitative restrictions on Egyptian T&C exports before the date set for elimination by the ATC prior to the elimination of quotas on exports from other countries, especially the Asian countries (this effort was part of a broader Euro-Mediterranean partnership, which aims to establish a free trade area between the EU and 12 countries around the Mediterranean by 2010). Therefore, EU imports from Egypt increased by 8.4% for clothing and 10% for textile products. However, total T&C exports experienced a slight decrease in 2004 as the increase in exports to the EU was more than offset by the decrease in exports to the US (textile exports to the US decreased by 30% and clothing exports decreased by 13%). This may be attributed to the severe competition that characterized the world market during the last year of the ATC.

It is noteworthy mentioning that quotas on restricted products in the EU and the US markets had been persistently under-utilized. The average fill rate did not exceed 50% for almost all the products, revealing that quotas were not a real constraint for the Egyptian T&C exports; however, the quota system had shielded Egypt from competition with stronger competitors for whom quota was constraining.

3.2. *The impact of quota elimination on the Egyptian T&C exports excluding QIZ (2005-2007)*

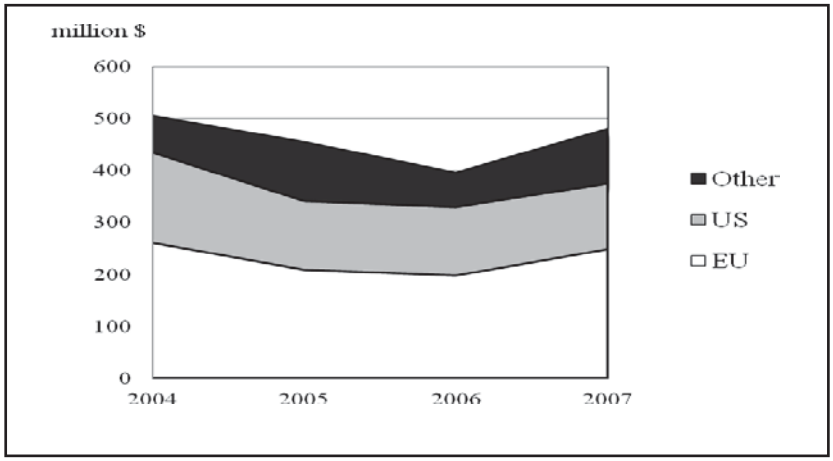
Egyptian T&C exports decreased by 10% during the first year after quota phase-out and continued to decrease in 2006 as shown in Figure 3, the combined share of EU and US markets in Egypt's T&C exports had reached 76% in 2005 down from 86% in 2004.

Figure 4 shows that textile exports to the EU decreased by 14% in 2005; but part of this decline was intended in order to enhance competitiveness in the EU market that enjoyed lower prices of both cotton yarns and fabrics by 7% and 5%, respectively (Textile Consolidation Fund, 2006). In contrast, textile exports to the US market increased slightly in 2005 and then it decreased at an increasing rate in 2006 and 2007 (it reached $32 million in 2007 compared with $47 million in 2004).

[1] In January 2003, the Central Bank of Egypt announced the float of the Egyptian pound; therefore, the Egyptian pound was allowed to be freely determined by market forces. That resulted in about 30% devaluation in the value of the Egyptian pound compared with the previous year; in June 2002, the buying price was 462.0706 PT/$, while in June 2003, it become 603.2290 PT/$ (Central Bank of Egypt, 2004).

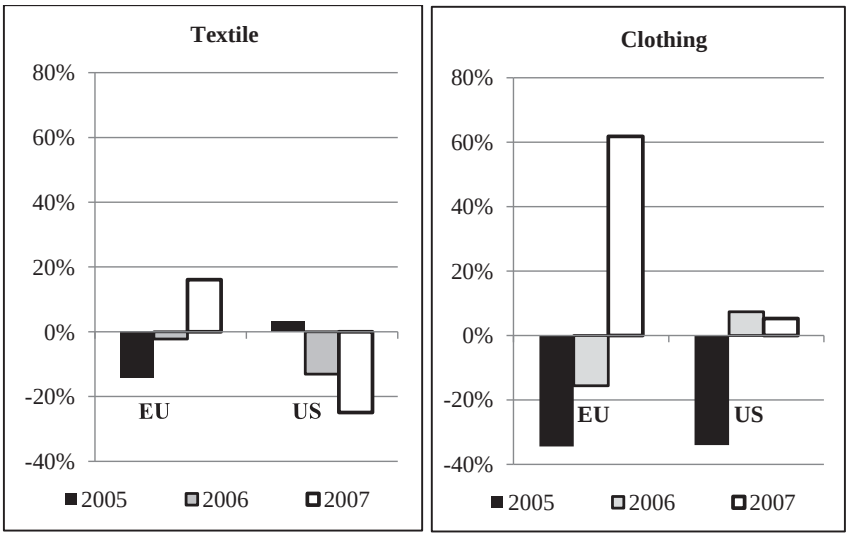
Clothing exports were severely affected by quota phase-out as it decreased by 34% to each of the EU and US markets in 2005; this decline resulted mainly from the intensified competition in world market during the first year of free trade. Recovery of clothing exports started in 2007, especially exports to the EU, as it increased by 60% as shown in Figure 4. This increase came as a result of the government's efforts to improve the competitiveness of the sector, mainly, reducing tariffs on imported yarns and fabrics. In addition, between 2000 and 2006, the EU offered a financial assistance of £80 million to help restructuring the sector, retrain workers, privatize and modernize the public sector spinning and weaving companies in Egypt (Ministry of Trade and Industry, 2007). On the contrary, Egyptian non-QIZ T&C exports to the US decreased as most US T&C imports from Egypt were handled through the QIZ protocol as shown in the next section.

Figure 3. The Value of T&C Exports to the EU, US and Other Markets (2004-2007)



Source: *International Trade Point, Egypt.*

Figure 4. Percent Change in T&C Exports to the EU and US Markets (2005-2007)



Source: *International Trade Point, Egypt.*

3.3 The impact of the QIZ protocol on the Egyptian T&C exports (2005-2008)

The QIZ protocol between Egypt, Israel and the U.S. was signed on December 14, 2004, providing non-reciprocal duty-free access to the U.S. market for products manufactured in specific industrial zones. These products must fulfill certain specific "rules of origin value added criterion"; where a 35% of the value added must be produced in Egypt, Israel (and/or West Bank and Gaza) and the US. An obligatory minimum of 11.7% - which was reduced to 10.5% in 2008 - out of the 35% must be produced in Israel (Ghoneim, 2009). QIZ represented an unprecedented opportunity to gain duty-free access to the U.S. market. Since the protocol entered into force in February 2005, it has played an important role in the growth of Egypt's T&C exports to the US market as shown in Figure 5.

It is obvious that the QIZ agreement had allowed Egyptian T&C manufacturers to escape the worst effects of quota abolishment. The value of QIZ T&C exports in 2007 ($688 million) exceeded the total value of Egyptian T&C exports - excluding QIZ - to the rest of the world in the same year ($481.5 million). However, the sustainability of such export's growth is doubtful, as the T&C industrial base experienced very little benefits from QIZ which could be confirmed by three facts;

a) Examining the product structure of QIZ T&C exports revealed that clothing exports enjoyed the lion's share, accounting for 90%, on average, between 2005 and 2008. Moreover, four products only accounted for 80% of the clothing exports, these products were led by pants (50%), followed by T-shirts, shorts and shirts (QIZ Unit).

b) Examining the concentration ratio of exporters within the QIZ indicated no significant entry of new comers. Despite the fact that the geographical coverage of QIZ eligibility had expanded significantly from only seven industrial zones in 2005 to 16 zones in 2009, only six of these zones accounted for 80% of all QIZ exports and five of them were among the original seven at the beginning of the implementation of QIZ protocol. This is also confirmed by the fact that out of the 800 registered companies, only a little over 200 - the larger companies - are actually exporting (Nugent and Abdel Latif, 2009).

c) The preferential treatment of Egyptian exports through the QIZ is likely to be eroded over time due to the widening network effect of the US "Free Trade Arrangements" (FTAs).

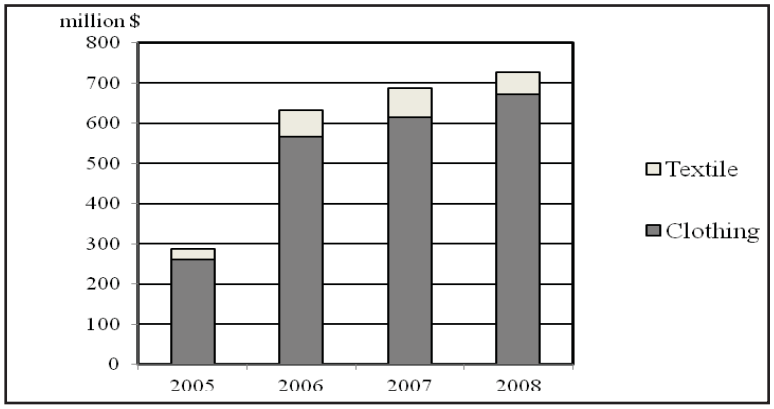


Figure 5. QIZ T&C Exports (2005-2008)

Source: QIZ Unit, Ministry of Trade and Industry, Cairo, Egypt.

4. Empirical study of the T&C industry in Alexandria

Alexandria is Egypt's largest seaport and a major industrial centre, accounting for about 40% of the total industrial output. Its port serves about 80% of Egypt's total imports and exports. The most important industries located in Alexandria include textiles, metals, cement, petrochemicals and food processing operations. T&C industry is one of the most important industries in Alexandria with a dominant private sector and few public sector companies (Industrial Development Authority, 2011).

This section empirically investigates and analyzes the export performance of a number of T&C companies in Alexandria and shed light on the major problems facing the industry.

4.1. Scope, limitations and methodology

This research focuses on T&C exporters in Alexandria, especially those that are exporting to the EU and/or the US markets. The study covers the period 2002 to 2008 so as to be able to grasp the effect of quota phase-out on the exports of those companies. The empirical work faced a number of obstacles, mainly;

a) Unavailability of central database about T&C companies in Alexandria.

b) Resistance of private companies to reveal export data (for sake of competition).

c) Almost all companies that agreed to fill the questionnaire have no computerized itemized database.

Different sources of evidence (questionnaires, personal interviews, direct observation and external data sources) were utilized to explore the phenomena under study through the use of a replication strategy. The consistency of findings of the studied companies further strengthened the generalization and reliability of research results. Semi structured questionnaire was considered appropriate as this type of questionnaire comprises a mixture of closed and open questions.

There are 84 T&C companies registered in 'Alexandria International Trade Point', the researcher contacted the largest 81% of those companies (68 companies). After excluding non-exporting companies and those that had wrong contact information, only nine companies out of 19 accepted to fill the questionnaire.

4.2. Analysis of the results of the case studies

4.2.1. Public sector companies

There are three large public sector T&C companies in Alexandria, two of which (Stia and El-siouf)[2] are exporting 15% to 25% (on average) of their production. After quota phase-out, El-siouf's exports decreased by more than 40% in 2005 (compared with 2004) as the EU is the company's sole export market. The reason behind that sharp decline in El-siouf's exports is mainly the stiff competition of South-East Asian countries in addition to the increase in the Egyptian cotton prices. By examining Table. 1, it is clear that exports of Stia Company did not suffer much in year 2005 (decreased by 6.2%[3]), the reason is that Stia is a QIZ Company, which helped to alleviate some of the negative effects of quota phase-out. The decrease in Stia's exports to the EU and the US combined was only 2.2%, while the rest was due to the decline in exports to the rest of the world including Arab Countries and Russia. The deterioration of those two large public companies' exports continued throughout the period (2006-2008) - as shown in Table 1 - due to internal problems facing T&C exporters in Egypt; sinking level of skills of both workers and technicians.

Table 1. The Percentage Change in the Value of Exports of Public Companies (2005-2008)

	2005	2006	2007	2008
El-siouf	- 41%	-29%	-1%	-2%
Stia	-6.2%	-14%	-21%	-9%

It is worth noting here that the environmental regulations didn't pose a problem for both companies; as Stia has obtained the Eco-tex certificate while El-siouf needs no certificates since it produces un-dyed yarns and fabrics, whereas most environmental certificates concerns chemical products used in dyeing. Moreover, both companies benefited from the "Export Development Fund" subsidy program (a government body that supports a number of sectors with an export subsidy that conform with the WTO "Agreement on Subsidies and Countervailing Measures",), however, they didn't benefit from the four international agreements of the "Greater Arab Free Trade Area" (GAFTA), the "European Free Trade Association" (EFTA) and the "Common Market for Eastern and Southern Africa" (COMESA), in addition to the "Free Trade Agreement" (FTA) with Turkey.

As new investments in public sector companies were limited after the implementation of the 'Economic Reform Program' in the early nineties, productivity in those companies dwindled, thereby reducing competitiveness.

[2] In 2004, Stia and El-siouf Companies had 4478 and 4142 workers respectively, those numbers experienced a high decrease in 2006 as it reached 3388 in Stia (24% decrease) and 3699 in El-siouf (11% decrease). This was highly attributed to the early retirement policy of most public sector companies which was used as an income support policy.

[3] As Stia company records data by financial year, therefore, the researcher compared exports of 2005/2006 with 2003/2004. The financial year 2004/2005 data was not used as during the first half of that year the quota system was still in force.

Moreover, the low prices of imported yarns and fabrics (especially from Asian producers) endangered domestic industry in two ways:

a) The domestic demand for Egyptian yarns and fabrics decreased causing a reduction in sales revenue, worsening the financial position of those companies.
b) The reputation of Egyptian T&C products was badly affected as they were not made from high quality Egyptian cotton. Consequently, imposing safeguard measures on the imports of those products is considered crucial.

4.2.2. Privatized companies

There are three T&C privatized companies in Alexandria; Alexandria Spinning and Weaving Company (SpinAlex), Arab Polivara Company and El Nasr T&C Company (Kabo)[4], those companies were privatized in the years 1997 and 1998. SpinAlex produces yarns only; Polivara produces yarns and fabrics, while Kabo produces knitted wear.
Almost all the exports of SpinAlex and Polivara are directed to the EU market, while Kabo exports find their ways to the EU, US and Arab countries (the average combined share of the EU and US markets in Kabo's exports is 60%). The percentage decline in the value of exports after quota phase-out varies dramatically among the three companies as shown in Table 2.

Table 2. The Percentage Change in the Value of Exports of Privatized Companies (2005-2008)

	2005	2006	2007	2008
SpinAlex	-4%	-2%	+4%	-4%
Polivara	-11%	-15%	-34%	-3.5%
Kabo	-80%	-18%	+130%	not available

In 2005, there was a slight decrease in the value of exports of SpinAlex but soon it recovered in 2007. Polivara experienced 11% decrease in exports which intensified to reach 34% decrease in 2007; this was attributed to three main reasons; increasing global competition, successive increase in cotton prices and the reduced productivity and product quality that resulted from the old machines. In 2008, exports of both companies decreased again, but it was not decisive whether that decrease resulted from the poor performance of both companies or because of the decreasing world demand after the 2008 financial crisis.

The situation in Kabo was unstable as the year 2005 witnessed major changes in the company's management which caused operational problems, consequently, exports decreased by 80% in 2005. With the new management board, the company's performance started to improve in the following years, moreover, the company benefited from several governmental supported programs - through the 'Industrial Modernization Center - that provided the company with financial assistance for training workers and purchasing new machines. In 2006, the company received export subsidy from the 'Export Development Fund' which contributed to exports' increase in 2007.

Environmental related trade barriers had no negative effects on the three companies, as each of them had acquired two or more environmental certificates (by governmental financial assistance) which facilitated their entry to different markets, especially the EU.

Although the three companies export little quantities to Arab countries, African countries and Turkey, they view Egypt-Turkey FTA as a promising agreement and hope to ripe more of its benefits in the near future.

4.2.3. Private sector companies

For the private sector companies, we work on four companies; two of which are partnership companies (Cotton Club and American Group) , employing 526 and 300 workers, respectively (in 2006), while the other two are joint-stock companies (Dyetex Group and Kangaro). Cotton Club exports its whole production to the EU market while American Group exports - about 60% of its total production - to both the EU and the US markets (80% to the US and 20% to the EU on average).

The export performance of both partnership companies was fluctuating during the period 2004-2008 as shown in the Table 3. This fluctuation was largely attributed to the intensified competition in the EU and US markets and the

[4] In 2006, the number of workers in Spinalex reached 2800, it was a little more than 4800 workers in both Polivara and Kabo Companies (those numbers were slightly stable between 2004 and 2006).

unawareness of other market opportunities. Also, the 2008 global financial crisis resulted in decreasing exports. It is noteworthy mentioning that the increase in American Group's exports in 2005 resulted from the existence of long-term export contracts for a number of orders from the previous year.

Table 3. The Percentage Change in the Value of Exports of Private Companies (2005-2008)

	2005	2006	2007	2008
Cotton Club	-9 %	+11%	-8%	-8%
American Group	+10 %	0%	0%	-10%
Dyetex	not available	+21%	+11.7%	+5.6%

The Dyetex Group[5] is one of the largest joint-stock companies in Egypt that exports its whole production to the EU and the US markets, while the Kangaroo Company exports its whole production to the US market. Dyetex was able to maintain a relatively good export performance after quota phase-out as the value of its exports increased at an average annual rate of 17%, however, the annual growth rate was decreasing as shown in Table 3. The Kangaro Company's exports achieved a stable growth rate of about 5% on average per year during the period 2004-2008.

According to the interview's results of both the American Group and Dyetex, if it was not for the QIZ agreement, the phase-out of quota system would have caused a more significant negative effect on exports. Cotton Club was not registered as a QIZ company until 2011 and this was considered an opportunity to export to the US in the following years.

High prices of imported inputs and the scarcity of skilled labor represented the major problems facing those companies. For some companies such as Dyetex, the high turnover rates of skilled labor in addition to the weak work commitment highly intensified the problem by lowering productivity.

The studied companies generally comply with environmental standards and labor rights provisions, the only challenge facing Dyetex in this regard was the overtime limits for skilled labor. None of the four companies benefited from any of the regional international agreements mentioned before. Moreover, they did not take advantage of the subsidized training programs and tariff reductions on machinery and spare parts that took place in 2007. This was largely attributed to the unawareness of those agreements and reforms. Only the American Group benefited from governmental subsidized accounting software and Cotton Club benefited from the export subsidy program.

Recently, the Cotton Club company developed some production lines and established a water refining unit, while the American Group company offered a number of training programs for its workers.

5. Analysis of the problems facing the T&C companies

In order to gain a broader understanding of the factors affecting the trend of Egyptian T&C exports and the challenges facing T&C producers, a number of interviews were conducted with some of the key players in the T&C industry in Egypt. We were able to gain the following insights.

5.1. Problems concerning the cotton sector

According to the studied cases, the low production and the high price of Egyptian cotton was the major problem facing T&C producers, the cotton cultivated area decreased by 32% over 10 years period (1997-2008), the reasons behind that are discussed below:

Generally, the growing expenses of fertilizers, pest-control operations and the long nine-month cotton cultivation cycle led to a decrease in the planted area in favor of other profitable crops as vegetables. Also, some cotton growers postponed planting cotton for three months - after its optimal planting dates - in order to use the land in producing other crops during this period (to make more profit), which caused a reduction in cotton productivity.

Egypt's cotton crisis began in 1996 when the government gave up the responsibility of allocating the cultivated area for cotton, buying crops from farmers, and selling the cotton at a subsidized price to domestic mills. During the period 1996-2004, the government cotton pricing policy discouraged farmers from growing cotton; ensured minimum prices became uncertain and most often those prices were announced too late (after the time of starting cotton plantation) for the farmer to decide whether to plant cotton or not.

[5] Dyetex Group is the second largest joint-stock clothing company in Alexandria - after Kabo Company - employing over 4000 workers.

Liberalizing cotton trade in 2004 (under agreements signed between Egypt and the WTO) had left farmers without any protection against global market fluctuations. Farmers became subject to exploitation of domestic cotton traders who usually buy the cotton crop from farmers at low prices to sell it to local producers or export it at a much higher prices. Consequently, farmers didn't gain much even at times when world cotton prices were rising.

At the same time Egyptian government reduced subsidies directed to cotton growers, the US subsidy program for pima cotton (the primary competitor for Egyptian cotton) has resulted in a reduction in demand for Egyptian long-staple cotton.

The net effect of all such factors was forcing many Egyptian yarn companies to reset their machines to process medium and short staple cotton (imported from Greece and Sudan) to face the shortage of the Egyptian extra-long and long staple cotton in the last few years. This affected Egyptian T&C exports negatively, as the products have lost the comparative advantage of being made of Egyptian cotton.

5.2. Other problems concerning the T&C sector

Lack of cheap raw materials, capital investments, skilled labor and adequate subsidies are problems mitigating the performance of T&C industry in Egypt;

a) Unavailability of cheap raw materials, mainly cotton, is a problem hindering the competitiveness of all types of companies producing in this sector.

b) Insufficient capital to replace depreciated machines is a problem facing mainly the public sector companies. Consequently, most public sector textile companies are suffering great losses and are highly indebted. Privatized joint-stock companies, on the other hand, are struggling with "the principle - agent problem".

c) The shrinking supply of skilled labor across the different stages of the production chain is mostly due to insufficient training programs and its high cost. High turnover rate among the existing skilled labor is another obstacle threatening the T&C sector; skilled labor in T&C companies seeks higher wage jobs either inside or outside Egypt. Consequently, some T&C producers - especially foreign companies inside Egypt – tend to employ workers from Asia.

d) Companies working in this sector complain from weak levels of subsidies directed to their sector while competitors in India, for instance, are highly subsidized at each stage of production. Moreover, the existing subsidies are directed towards large companies which had acquired quality certificates.

Adding to the above problems, textile producers consider smuggling low cost fabrics from Asian countries as another key problem threatening their existence. Furthermore, discrimination among domestic and foreign investors in terms of facilitating business environment is another major constraint that discourages many small-scale Egyptian businessmen.

6. Conclusion

Egyptian T&C exports experienced a generally declining trend with several fluctuations during the period 1995-2004 due to some internal and external problems, in parallel with the lack of strategies to augment performance and increase awareness of the intensified competition that usually prevail in a quota-free market.

After quota abolishment, Egyptian T&C exports experienced a poor performance (excluding QIZ exports). Only in 2007, T&C exports approached its level in 2004, which was highly attributed to tariffs' reduction on imported raw materials (yarns and fabrics) that took place in 2007.

In the US market, the QIZ protocol secured Egyptian T&C exports' access to this market after 2005. Actually, the QIZ exports more than offset the sharp decline in the non-QIZ exports. However, a limited number of producers have benefited from the tariff free treatment, moreover, the growing array of bilateral agreements signed by the US threaten to erode the preferential access provided to Egyptian exporters relative to competitors.

The domestic problems facing the T&C sector had a great effect on export's performance. The high price of Egyptian raw cotton was triggered by other problems such as; the high cost of cotton cultivation and decline in its relative profitability that eventually led to the decline in land allocated for cotton production. Moving up the supply chain, several problems hamper the growth of the textile sector. The public sector textile companies have a lot of inherent problems; the old machinery, outdated technology and over employment of low-skilled labor. Consequently, almost all clothing exporters import raw materials from abroad, i.e. losing the competitive advantage of using high quality Egyptian cotton. Also, the clothing sector suffers from low labor productivity and lack qualified middle and upper management personnel, in addition, the limited marketing and R&D capabilities enhanced the sector's troubles.

Furthermore, smuggling T&C products to Egypt exposed textile producers to unfair competition at the national level. At the global level, the very high subsidies directed to the T&C producers in Asia (especially in India) render competition unfair.

7. Recommended policies

Reviving the T&C sector starts with the development of a national plan that determines the role of each stakeholder in the sector, in addition to putting outlines for the cotton cultivation development strategy. The government must develop a supreme council for the T&C industry in order to put the details of this plan and monitor its implementation. This council has to act as a connection point between companies (especially small and medium enterprises) on one side and training centers, research institutes and government bodies on the other side. A guide for the development of this national plan is presented below.

7.1. The cotton sector development strategy

As cotton is the major raw material for the Egyptian T&C industry, increasing its production would have a great role in increasing competitiveness of the sector's exports. There are several strategies that will serve in achieving this goal including;

a) Strengthening the role of the cotton research centers.

b) Subsidizing good strains of cotton seeds, fertilizers and pesticides with free advisory services for farmers.

c) Reviving the cotton price stabilization fund to protect cotton farmers and manufactures against risks of extreme world price fluctuations.

In the long-run, great emphasis should be directed towards planting short- staple cotton in the new reclaimed land in the desert - through cooperation with research initiatives - this allows mechanization of cotton farming which increases productivity. In addition, expanding organic cotton cultivation is recommended as demand for products made of organic cotton has increased dramatically in the last few years.

7.2. *The textile sector development strategy*

There is an urgent need for restructuring public sector textile companies; this is not necessarily associated with the conventional privatization processes that proved to be inefficient in many cases. The public private partnership is considered an innovative option because it allows benefiting from private sector efficiencies, at the same time, it allows the government to promote economic and social development goals. Concerning joint-stock companies, various mechanisms have to be used to align the interests of the agent in solidarity with those of the principal including management stock ownership programs.

Combating smuggling needs tougher laws, in addition to using new technology to facilitate the mission (e.g. using the satellite surveillance system that was recently applied in Turkey). Applying temporary safeguard measures on all imports of yarn and fabrics is necessary in the long-run so as to support the modern domestic T&C industry.

7.3. The clothing sector development strategy

Although, Egypt has an abundance of inexpensive labor, the low productivity rates eroded its competitive advantage. Addressing this problem starts with filling the gap between demand and supply of skilled labor through enhancing technical and vocational training to generate a pool of skilled productive workers. This can be achieved by strengthening the role of the existing training and modernization centers through increasing awareness - especially among small and medium enterprises - about the programs on offer and introducing a credible monitoring system to ensure higher levels of transparency and accountability of the institutions that offer subsidized training and modernization services.

Another recommendation to reduce turnover rate among skilled workers is to develop compensations packages that includes long-term incentives, profit-sharing programs, improving health care and working conditions, and other fringe benefits.

Upgrading clothing design and marketing policy could significantly enhance Egypt's competitiveness. Entering into strategic alliances with internationally operating clothing companies, retailers and brand companies may be an excellent option.

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