

Towards Africa's industrialization:

EGYPT



A focus on high margin products exploiting Egypt's high grade cotton could be the way forward

Textiles from Egypt to the world

Egypt enjoys substantial revenues from the oil and gas sector and Suez Canal tariffs, yet neither industry provides much employment. By contrast, the textile sector contributes both employment and export revenues. More than a million Egyptians already work in the sector but there is plenty of potential for further growth.

The country has long been known for its cotton but too much of its annual production has been exported in a raw form. Despite current political difficulties in the country, Egypt now has the opportunity to sow the seeds of future growth.

The recent history of the Egyptian textile industry prior to the Arab Spring was one of slow but steady growth. The 2005 Euro-Mediterranean Partnership Agreement with the European Union gave Egyptian textile products duty and quota free entry to the world's biggest single market. Within three years, textile production accounted for 9.5% of the country's exports and 26.4% of industrial production. All of this led to a steady increase in annual investment in the sector from \$89 million in 1995 to \$351 million in 2007.

Most spinning, weaving and hemming factories were state-owned companies but private sector enterprises were gradually

taking a growing share of the market as levels of corporation tax were reduced. Indeed, the country now produces a wide range of raw cotton, yarns, fabrics, garments and ready-made textiles. International brands such as Gap, Guy Laroche, Pierre Cardin and Tommy Hilfiger are also made in Egypt under licence.

However, the political uncertainty that followed the Arab Spring badly affected investor confidence at the same time that the global economy began to falter. Textile exports fell by 10% last year alone.

In addition, existing weaknesses in the industry were exposed. Many factories produce clothing, such as jeans, that does not use Egyptian fine cotton. At the same time, many Egyptians wear clothes that have been manufactured abroad, but using Egyptian cotton. Too little dyeing and design is carried out in the country. Many blame the domination of the public sector for the lack of investment in new technology and management techniques.

Yet the crisis of confidence could help

to restructure the sector, enabling longer term success. The downturn prompted the government to announce that interest on loans to cotton growers would be reduced to 5%, far below the standard 12% rate. At the same time, it created a \$45 million fund to support state-owned spinning and weaving producers during the economic downturn. Much of the money will be used to encourage private sector takeover of loss-making state-owned units, provided that they retain all existing employees.

The big question is whether the government will sell off cotton mills. The proposal was controversial even before the Arab Spring but it remains to be seen whether the new government will push through privatisation at a time of such great social upheaval.

The falling value of the Egyptian pound since the beginning of 2013 has helped the industry in targeting both domestic customers and export markets. Egyptian exports are now cheaper and overseas imports more expensive. However, Magdi Tolba, the chairman of manufacturer Cairo Cotton Center, says: "The impact of the devaluation is not as positive as it could have been, because the problem here is that we have not deepened the industry so we still need to import a lot. All fabric for exported garments comes from abroad. Even the yarn for T-shirts comes from Southeast Asia."

Greater integration in the global economy through privatisation should help. Located at the crossroads of Africa, Asia and Europe, Egypt is ideally placed to export textiles around the world. Investment in new roads and container ports means that manufacturers can export their garments more quickly and at a lower cost than before.

Moreover, in an era of global access to cheap garments, particularly from China, Egyptian cotton is becoming increasingly attractive as a quality fabric. The country may therefore have greater success in aiming for higher quality goods than seeking to compete with low-cost producers in China, Bangladesh, Turkey and Turkmenistan.

The Textiles Development Center at the Ministry of Trade and Industry is already offering incentives and support to manufacturers in the technical textile sector. Roughly half a million people work in textile and clothing companies, comprising about a quarter of the industrial workforce: just as many are employed in cotton cultivation. This new focus on quality could ensure more jobs and revitalize the industry.

More than 1 million Egyptians work in the textile sector

