



**ASSESSING THE IMPACT OF THE QIZ PROTOCOL  
ON EGYPT'S TEXTILE AND CLOTHING INDUSTRY**

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Working Paper No. 113  
July 2006

## Abstract

This paper provides an ex-post assessment of the impact of Egypt's qualifying industrial zones (QIZ) protocol on the textile and clothing industry in Egypt, and offers recommendations to maximize benefits to the sector. Drawing on the results of a survey conducted for the purpose of this study and interviews with QIZ companies, the paper finds that the protocol has achieved its short-term objectives such as preventing deterioration of Egypt's share in the US market following the end of the international system of quotas. The protocol has also led to increased employment and investment opportunities in many exporting companies. To maximize benefits from the protocol, the study stresses the importance of promoting investment and improving the competitiveness of domestic companies. It also highlights the need to support the development of subcontracting linkages between large and smaller companies and to establish long-term partnerships between local and foreign investors.

## ملخص

تتناول هذه الدراسة بالتحليل تأثير بروتوكول المناطق الصناعية المؤهلة (الكويز) على صناعة المنسوجات والملابس الجاهزة في مصر، وتقدم بعض المقترحات التي يمكن أن تساعد على تعظيم الاستفادة منه. واستنادا إلى مسح أجري خصيصا لهذه الدراسة وبعض المقابلات مع الشركات التي تعمل في إطار هذا البرتوكول، وجدت الدراسة أن "الكويز" حقق أهدافه قصيرة الأجل والتمثلة في تجنب انخفاض نصيب مصر في السوق الأمريكي في أعقاب انتهاء العمل بنظام الحصص الكمية. كما ساعد على زيادة فرص التشغيل والاستثمار في العديد من الشركات المصدرة. ولتعظيم الاستفادة منه، تؤكد الدراسة على أهمية زيادة الاستثمار وتحسين القدرة التنافسية للشركات المحلية. كما تؤكد أيضا على الحاجة إلى تنمية الروابط التعاقدية بين الشركات الكبيرة والصغيرة وإقامة شراكات طويلة الأجل بين المستثمرين المحليين والأجانب.

## INTRODUCTION

In December 2004, Egypt signed a qualifying industrial zones (QIZ) protocol with Israel, after almost a decade of ambivalence due to political considerations. Like the Jordan QIZ (1999), Egypt's protocol extends the benefits of the US-Israel free trade agreement (FTA), namely duty-free access to the US market, to qualifying industrial zones on the condition that exports include inputs from Israel.

The driving force behind signing the protocol was the full liberalization of the international textile and clothing (T&C) market as of January 2005, ending the longstanding quota system, and rendering Egyptian T&C products more vulnerable to fierce international competition. With the elimination of quotas, it was estimated that some 150,000 workers would lose their jobs in Egypt's T&C industries. Also at stake was an important source of foreign currency earnings to the Egyptian economy (Ministry of Trade and Industry 2006a).

More than a year since the protocol was signed, a few questions are worth answering. Has the protocol achieved its objectives? How has it affected the performance of QIZ companies and what are the possible effects of the protocol on Egypt's T&C industry in the long run? Finally, how can Egypt maximize the benefits from this new trade arrangement? This paper attempts to answer these questions, in light of trade data and interviews with companies operating within QIZs, and highlights the results for the T&C industry.

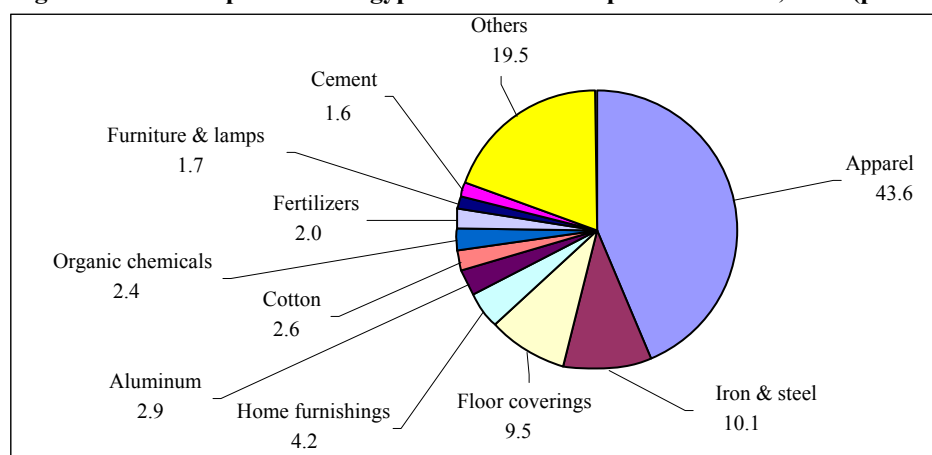
The paper is organized as follows. Section I presents a brief account of the status of Egyptian exports in the US market in 2005. Section II elaborates on international developments that made the signing of the protocol crucial for Egypt's T&C industry, and discusses the counterfactual scenario. Section III sheds light on the aspects that make QIZ Egypt distinct compared to QIZ Jordan. Section IV assesses the impact to date of the protocol on Egyptian T&C exports and on the performance of companies operating within these zones. A long-term outlook of the impact of the agreement is given in section V followed by suggestions regarding how to maximize the benefits from the protocol.

## I. STATUS OF EGYPTIAN EXPORTS TO THE US MARKET

The United States is Egypt's largest single trading partner, absorbing about 33 percent of Egypt's total exports (Central Bank of Egypt 2006). It also offers very promising export opportunities given that it is the largest and fastest growing import market in the world.

In 2005, total Egyptian exports to the United States amounted to \$2.08 billion. Excluding mineral fuels, exports totaled \$1.02 billion, which is less than their corresponding value in 2004 (\$1.13 billion). Major non-fuel exports in 2005 (and 2004) included apparel, iron and steel, floor coverings and home furnishings (figure 1). Total T&C exports to the United States in 2005 were \$612.3 million compared to \$561.1 million in 2004 thus achieving a growth rate of 9.1 percent.<sup>1</sup> Exports of apparel increased from \$422 million in 2004 to \$444 million in 2005, floor coverings from \$69 million to \$96 million, home furnishings from \$38 million to \$43 million and fabrics from \$9 million to \$10 million, whereas exports from fibers declined from \$22 million to \$16 million.

**Figure 1. The Composition of Egyptian Non-Fuel Exports to the US, 2005 (percent)**



Source: USITC 2006.

Prior to the QIZ protocol, Egypt benefited on a very limited scale from duty-free access to the US market under the Generalized System of Preferences (GSP). In 2004 for example, Egyptian exports under GSP totaled only \$38.1 million or 2.9 percent of Egypt's total exports to the United States (USITC 2006).<sup>2</sup> The GSP system has been of limited use to Egypt

<sup>1</sup> As a result, the share of T&C exports to total non-fuel exports to the US increased from 50 percent in 2004 to 60 percent in 2005.

<sup>2</sup> These included wooden and metal furniture, jams, spices, plastics, vegetables, juice, and articles of jewelry, precious metals and semi-precious stones.

because it does not apply to T&C products (with a few exceptions), although they are promising export items in Egypt.<sup>3</sup>

Since the entry into force of the QIZ protocol in February 2005, products of companies qualified for QIZ treatment and that satisfy certain rules of origin, enter the United States duty-free. This preferential treatment is of special importance in the case of T&C exports since US tariffs on these products are still relatively high. In 2004, weighted average most-favored-nation tariffs (MFN) on Egyptian exports of apparel to the US market was 17.1 percent compared to 8.5 percent on footwear (HS 64), 8.9 percent on dairy products (HS 04), 2 percent on carpets (HS 57), 1 percent on furniture (HS 94), and 0.002 percent on organic chemicals (HS 29).

Although prices of Egypt's T&C exports in the US market declined by the value of US MFN tariffs on these exports, they declined by less than the value of MFN tariffs compared to prices of its comparators. This can be attributed to a decline in the world prices of apparel in major markets with the elimination of the quota system, which reduced the impact of the QIZ protocol on relative prices of Egyptian exports.<sup>4</sup> For knitted or crocheted apparel (HS 61), world prices before tariffs declined by 8.4 percent compared to a decline in Egyptian prices (before tariffs) by 3.3 percent in the first nine months of 2005 relative to the same period in 2004.<sup>5</sup> Thus, relative prices of Egyptian exports increased by about 5 percent, absorbing part of the tariff reduction results from the QIZ protocol (18 percent). This implies that the price reduction in Egyptian apparel export prices under HS 61 is effectively 13 percent (figure 2). Similarly, the effective reduction in prices of Egyptian exports of non-knitted or crocheted apparel (HS 62) is around 6.8 percent. The reduction is much lower in this case because the average weighted prices of Egyptian exports under HS 62 increased whereas those of the rest

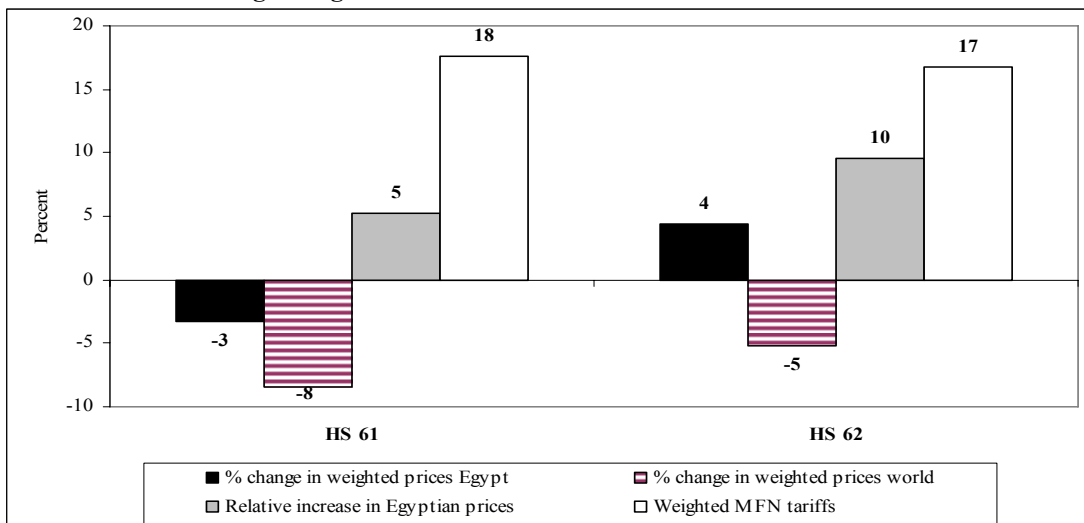
<sup>3</sup> Textile products eligible for the US GSP according to HS classification are silk: 500309, 5004, 5006, 50071003, 500720, 500790; wool: 510210, 510301, 510302, 510504, 5110, 5113, 510510; cotton: 520831, 520832, 520841, 520842, 520851; carpets and other floor coverings: 5701, 570210, 570291; special woven fabrics 5805; and from textile articles: 63049910, 63049940.

<sup>4</sup> This observed decline in world prices can be attributed at least partially to the elimination of the tariff equivalent of quotas with the complete phasing out of the quota system. The tariff equivalent of quota is the level of tariffs that would have the same restrictive effect as quotas. It was estimated to be about 40 percent for China and some Asian countries (Nathan Associates 2002).

<sup>5</sup> To estimate the net impact of the protocol on Egyptian export prices, major export items under HS 61 and 62 were identified. Next, weighted averages of tariffs on these products were calculated, which represent the reduction in import prices of the Egyptian products due to the protocol. Also, percentage changes in US import prices from Egypt and the world were calculated using data on values and quantities of apparel items. Calculations were carried out at the 10-digit level of HS classifications 61 and 62.

of the world declined. These estimates may have their shortcomings as they are based on averages. Yet, they are indicators that Egypt's price competitiveness in the US market did not improve by the full value of US import tariffs on apparel. The above also shows that without the protocol Egypt's price competitiveness in the US market would have worsened substantially and that serious steps are needed to upgrade the T&C industry in Egypt as more intense competition is steadily eroding preferential access to markets.

**Figure 2. Percentage Change in Prices of US Apparel Imports from Egypt and Rest of World and US Average Weighted Tariffs for HS 61 and 62**



Source: Calculated OTEXA 2005a and USITC 2006.

## II. WHY DID EGYPT SIGN THE QIZ PROTOCOL?

Over the past few years, Egypt has been seeking to expand its opportunities in the US market via an FTA. However, with the failure to move forward with an Egypt-US FTA and in light of changing trade conditions in the United States and globally, Egypt opted for the QIZ as a second best—at least politically—to maintain and hopefully enhance its competitiveness in the US market. This section elaborates on the factors that may have posed a threat to Egypt's exports to the United States in an attempt to answer the counterfactual question: What if Egypt had not signed the QIZ protocol?

### *Changing Trade Conditions Abroad*

Three significant trade developments abroad evolved in recent years rendering it important for Egypt to conclude the QIZ protocol. These are the phasing out of the Multi-Fiber Agreement

(MFA), China's accession to the World Trade Organization (WTO) and the United States' widening network of FTAs.

#### *The phasing out of the MFA*

For nearly 30 years, trade in T&C was governed by a quota system in accordance with the MFA. This system resulted in a global dispersion of T&C production by restricting imports from more competitive producers. With the complete elimination of quota system as of January 2005, less efficient producers and even preferred suppliers risked losing their market shares to a handful of countries.

Although the elimination of quotas on T&C products started in 1994, the first two stages of quota elimination had no significant effect on producers or importers because it applied mainly to products that had not been constrained by quotas or imports of these products were below their quota limits. The year 2005 was expected to have the greatest impact as it witnessed the liberalization of 49 percent of T&C trade and the most restrictive quota categories (Nathan Associates 2002).

#### *China's accession to the WTO*

In 1995, China was not a member of WTO, and as such did not benefit from the Agreement on Textiles and Clothing (ATC) and the elimination of quotas. But following its accession in December 2001, China was consequently granted ATC benefits. It was estimated that China would obtain about 45 percent of the world market of T&C by 2005. Several factors qualify China to be a major T&C exporter. It has the largest production capacities for cotton, man-made fibers (MMF) and silk and it is among the lowest cost suppliers as judged by its hourly wages. Other factors include its high productivity, managerial skills, product quality and advanced technology.

Growth rates of China's T&C exports to the US and EU markets prior to and after its accession to the WTO were early evidence of the threat it posed to its competitors. Between 1995 and 2001, the annual growth rate of Chinese exports to the US and EU markets averaged 6.3 percent and 6.7 percent, respectively. Between 2002 and 2004, the average annual growth rate of Chinese exports of textile products to the United States was 29.2 percent, compared with 38.4 percent to the European Union (Yumin 2005). Nevertheless, competition from China will continue to be contained until end-2008 because countries can invoke special T&C

safeguards against it in the case of market disruption.<sup>6</sup> In 2005, 10 requests were filed with the US Committee for the Implementation of Textile Agreements against China to remedy market disruption (OTEXA 2005b).<sup>7</sup>

*Growing network of US FTAs and preferential trade agreements*

Before 2005, Egyptian exports to the United States were subject to US MFN tariff rates with very few exceptions. This has put Egypt in a less favorable position compared to countries that have concluded preferential trade arrangements or FTAs with the United States. This has been exacerbated by the tendency of the United States in the past few years to expand its network of trade agreements, which currently covers several countries and regions.

Starting from an FTA with Israel in 1985, the United States currently has in force the North America Free Trade Agreement (NAFTA), and FTAs with Jordan (in 2001), Singapore, Chile, and Australia. In addition, in 2004, the United States signed FTAs with Morocco, Central America, the Dominican Republic and Bahrain. It is also negotiating the Free Trade Area of the Americas and the US-Southern African Customs Union, and bilateral FTAs with Thailand, Andean nations, Panama, Oman and the United Arab Emirates. Besides these FTAs, the United States has implemented three preference programs: the GSP, the African Growth and Opportunity Act (AGOA), and the Caribbean Basin Trade Partnership Act (CBTPA).

As illustrated in figure 3 below, the average US MFN rate is higher than average tariff rates applied by the United States under its unilateral preference schemes and FTAs. This has put Egypt under pressure to seek similar agreements with the United States, especially that there is strong evidence of great benefits realized by preferred suppliers in the US market. Mexico's performance after signing the NAFTA is a striking example. Between 1995 and 2001, Mexico's T&C exports to the United States grew by 132 percent, and its market share in the United States increased from 5 percent to 13 percent. Another case is Jordan, which

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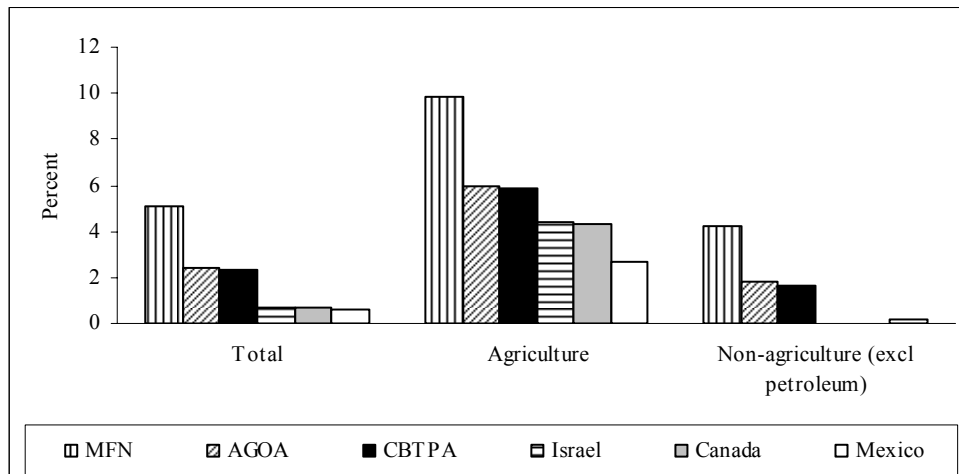
<sup>6</sup> China safeguard action can be invoked by any member by asking for bilateral consultations if market disruption (threaten to impede the orderly development of T&C trade) is detected. Request for consultations implies immediate limitation of exports at a pre-determined level: (7.5 percent above the amount imported during the last 12 months). It does not necessarily require China's agreement, there is no WTO notification; no multilateral surveillance. It can extend to a maximum of 12 months. It does not remain in effect beyond one year without reapplication, unless agreed (US Government Accountability Office 2005).

<sup>7</sup> Moreover, until 2013, general safeguard provisions for all kinds of products, including T&C products, are also possible (Knappe 2004).



signed a QIZ protocol with the United States in 1999. As a result, Jordan increased its exports of apparel to the United States from \$2.4 million in 1999 to \$920 million in 2004. Also, T&C exports from the Andean Trade Preference Agreement and AGOA countries to the United States grew by 40 percent and 131 percent, respectively, between 1995 and 2001 (Ricupero 2003).

**Figure 3. Tariffs According to US Preferential Agreements, 2002**



Source: WTO 2003.

### ***What if Egypt Had Not Signed the QIZ? A Counterfactual Scenario***

Several studies (e.g., Nathan Associates 2002, USITC 2004, and Ananthakrishnan and Jain-Chandra 2005) predicted that the market share of non-quota constrained T&C suppliers will shrink after 2005, whereas that of quota constrained suppliers will increase significantly. As a non-quota constrained supplier of T&C, Egypt was considered among the losers.<sup>8</sup> The list of beneficiaries from quota removal included: China, Hong Kong, India, Indonesia, Bangladesh, Philippines, Korea, and Sri Lanka.<sup>9</sup> Actual trade statistics for 2005 supported the above predictions for China, Indonesia, India and Bangladesh, which increased their apparel exports to the United States by 46 percent, 20 percent, 34 percent and 20 percent, respectively.

<sup>8</sup> The only highly filled quotas in the US market were cotton knit shirts and blouses (categories 338/339) 74 percent, and carded and combed cotton yarns (categories 300/301) 67 percent.

<sup>9</sup> One of these studies predicted increases in apparel exports from China and South and South East Asia by 87 percent and 36 percent, respectively. The same study predicted a decline in the exports from Mediterranean Basin countries and CEECs, European Union, Latin America by 5 percent, 19 percent and 39 percent, respectively. Another study predicted an increase in the world market share of developing countries for T&C by 4 percentage points. China will gain 3 percentage points and the other Asian countries will capture another 2 percentage points. Non-quota holding developing countries are predicted to lose 2.3 percentage points to restrained countries (USITC 2004).

Results of a survey conducted for the purpose of this study<sup>10</sup> have to a large extent supported the above predictions for Egypt as a non-quota constrained T&C producer. In this survey, covering 185 T&C QIZ companies (of a total of around 360 companies registered under the QIZ until August 2005), 49 exporting companies (out of a total of 85) were asked to evaluate what might have happened to their exports to the United States had the protocol not been signed. Out of the 49 companies, 30 stated that their exports would have decreased significantly and 19 said that their exports would have remained constant. The counterfactual decline in exports ranged between 20-35 percent for seven companies, more than 50 percent for nine companies and the rest did not give an estimate of a decline. One major exporter said that demand for Egyptian T&C exports slowed down in 2004 in anticipation of the elimination of the quota system in January 2005.

In short, changing trade conditions worldwide posed a threat to Egypt's T&C exports to the United States. To many exporters, they meant a reduction in their exports, which indicates that signing the QIZ was necessary. One can even argue that the decision to sign the protocol came late and Egypt lost significantly from postponing it, considering the benefits reaped by Jordan.

### **III. CHARACTERISTICS OF QIZ EGYPT AS COMPARED TO QIZ JORDAN**

As mentioned earlier, the QIZ protocol is a trade arrangement that allows Egyptian products to enter the US market duty-free. To qualify for QIZ treatment, products should be produced in specific zones and comply with certain rules of origin. Current qualified zones include Greater Cairo (Giza, Shubra Al Kheima, Nasr City, 10th of Ramadan City, 15th of May City, Badr City, 6th of October City, Obour City, Kalyub City, and Gesr El Suez), Alexandria, Suez Canal (Port Said, Ismailia, Suez) and Central Delta governorates (Gharbia, Dakahlya, Menufia, Damietta). Selection criteria for these zones were actual export statistics in 2003, export potential, and number of employees. Companies located within these zones qualify for QIZ treatment if they register with the QIZ Unit of the Ministry of Trade and Industry and if 35 percent of their product value is manufactured locally.

This section discusses briefly the main elements that distinguish QIZ Egypt from QIZ Jordan. Differences include provisions of the protocols and company profiles in the two countries.

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<sup>10</sup> The survey questionnaire is provided in the Appendix.

*Terms of the QIZ Protocols*

Differences between Egypt's protocol and that of Jordan include the percentage of Israeli inputs required for a product to qualify for duty-free access to the US market, the base for investigating compliance with QIZ rules (quarterly turnover versus each export shipment), and the unit granted QIZ treatment (factory versus product).

*The percentage of Israeli content in QIZ Egypt is higher*

In Egypt and Jordan, a product qualifies for duty-free access to the US market if 35 percent of its final value is produced locally. However, the way in which the 35 percent is distributed is different in the two cases. In Egypt, QIZ companies and the Israeli party each contributes at least one-third (11.7 percent) of the minimum 35 percent of local content required. The rest is covered by Egypt, the United States or West Bank and Gaza. In Jordan, the minimum Israeli input in the 35 percent local content is currently 8 percent. The rest of the 35 percent is distributed as 11.7 percent from Jordan and 15.3 from the United States, Jordan, Israel and/or West Bank and Gaza.

Due to the higher prices of Israeli inputs compared to their substitutes, qualified companies in Egypt are demanding a reduction in Israel's share in the local content requirement to 8 percent like Jordan. Reducing the percentage of Israeli inputs is possible given that Jordan started with 11.7 percent and negotiated it down to 8 percent. Amending the protocol along these lines will reduce any negative impact of the protocol on backward linkages in the economy.

*Investigation of compliance with QIZ rules in Egypt is more flexible*

In Egypt, compliance with the 11.7 percent Israeli content is checked every three months as opposed to each shipment for Jordan. This gives the QIZ companies in Egypt more flexibility. If the Israeli component achieved in one quarter is more than 11.7 percent, the excess can be carried over to the following quarter.

*QIZ treatment is granted to companies in Egypt as opposed to products in Jordan*

In Egypt, approvals for QIZ treatment are granted to companies on the condition that they are located within the qualifying zones. Upon approval, a certificate is delivered to the company and is valid for one year, during which time any product the company produces is granted

QIZ treatment.<sup>11</sup> In Jordan, companies are also granted QIZ approval if they are located within the qualifying zones. However, the QIZ joint committee must authorize the approval of specific products to be manufactured by the companies in the qualifying zones. Approval forms issued are valid for a period of 12 months and include detailed information about the approved product.

### ***Company Profiles***

QIZ Egypt and that of Jordan also vary in terms of their company profiles. Between the two countries, companies differ in number, degree of activity diversification, export orientation and linkages with the rest of the economy.

#### *The number of QIZ companies in Egypt is larger*

QIZ Egypt started with a total of 397 qualified companies, and currently includes 570 after extending the QIZ to include new geographical areas. In Jordan, the number of qualified companies is much smaller. Starting with two in 1999, there are currently over 60 companies.

#### *Companies in Egypt are less export-oriented*

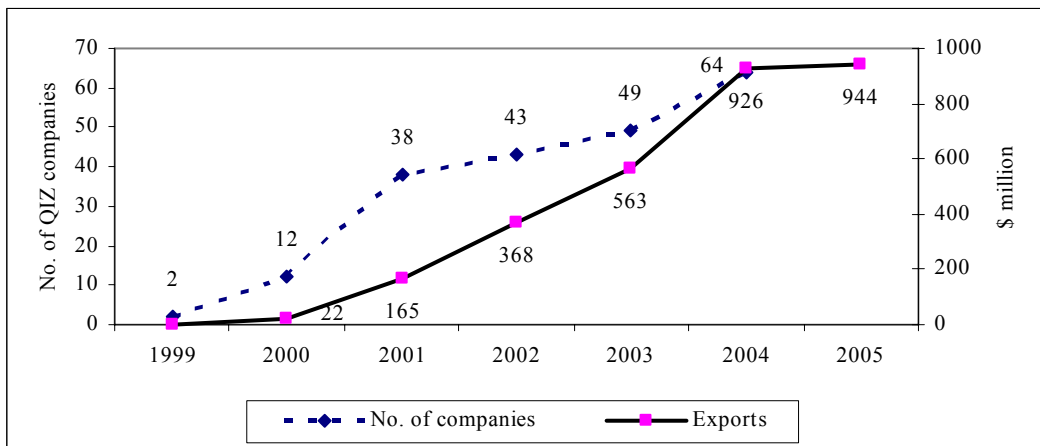
While the majority of QIZ companies in Jordan are Asian investments<sup>12</sup> that relocated to avoid US quotas on T&C and benefit from the QIZ to expand exports, in Egypt, QIZ companies are already existing entities with different export abilities. A recent study on the export readiness of QIZ T&C companies in Egypt concluded that about 49 percent of 193 companies have low export potential as will be discussed later (Context 2006).

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<sup>11</sup> Every three months, the QIZ Joint Committee provides the customs authorities of Egypt and the United States with a list of companies entitled to duty-free treatment for the next quarter. To renew approvals, the company provides evidence of full compliance with all the requirements of the protocol for the previous quarter, no later than 15 days from the end of each quarter.

<sup>12</sup> Foreign investment came from countries such as China, Taiwan, Hong Kong, the United States, Pakistan, India, Turkey, South Korea, and the Philippines (The American Chamber of Commerce in Jordan 2005).

**Figure 4. QIZ Companies and QIZ Apparel Exports in Jordan, 1999-2004**

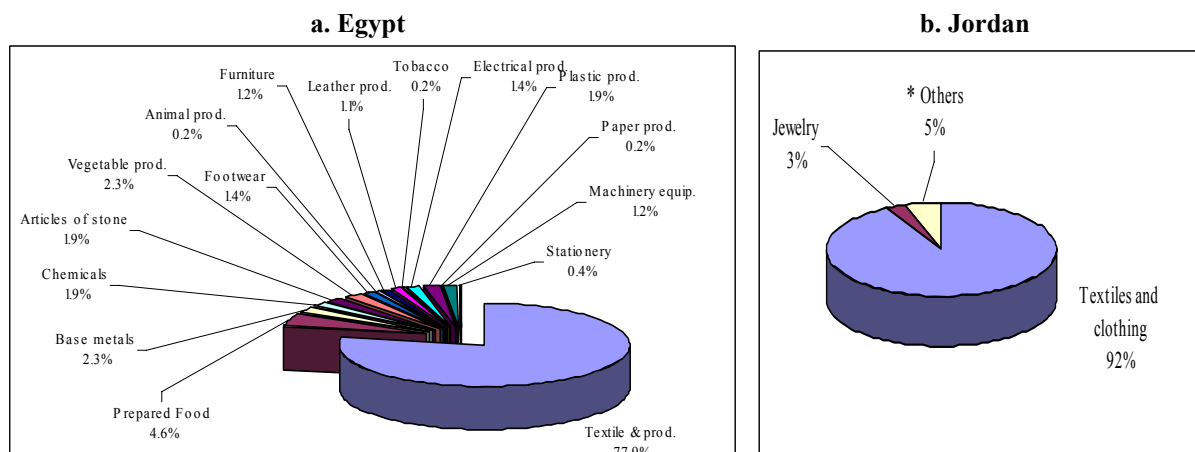


Source: USITC 2006.

*Activities of QIZ companies in Egypt are slightly more diversified*

In Egypt, as in Jordan, T&C factories are dominant, and the majority of these companies are producers of apparel. Yet, activities of QIZ companies in Egypt are more diversified, as 79 percent of the companies work in the T&C industry compared with 92 percent in Jordan (figure 5).<sup>13</sup> However, the more diversified production profile in Egypt does not reflect on the structure of QIZ exports as more than 97 percent of these exports are T&C products, as will be detailed later.

**Figure 5. Distribution of Listed Companies by Industry**



\* Others represent three companies that produce bed sheets, plastic molds, and printing products.  
Source: Gaffney 2004; and Ministry of Trade and Industry 2006b.

<sup>13</sup> In Jordan, there were other industries such as suitcase manufacturing, but they left the zones after quotas were lifted on suitcases at the beginning of 2002.

*Backward linkages of companies in Egypt are higher*

QIZ companies in Jordan have not produced backward linkages to any significant extent as they are heavily dependent on imported intermediate goods. In Al-Dulayl QIZ, intermediate imports account for about 59 percent of the value of exports and in AL-Karaa QIZ the percentage is 44 percent (Kardoosh 2004). In contrast, Egypt boasts a more integrated textile industry.

According to the Ministry of Planning Input-Output tables 1998/99 (the latest I/O tables with details on imported intermediate inputs), the share of domestic inputs from the spinning and weaving industry in total textile inputs in the clothing sector was 85 percent, and the share of local domestic inputs in total inputs of the clothing industry was 65 percent.

**IV. QIZ EGYPT: RESULTS TO DATE**

Egypt's QIZ protocol entered into force in February 2005. Since then, monthly QIZ exports exhibited an upward trend and the number of exporting QIZ companies increased (from 54 companies in April-June 2005 to 96 companies in January-March 2006). The majority of QIZ exports to date have been apparel and a small percentage of textile products. The share of these two items was 97 percent or more over the whole period from March 2005 to February 2006 except in October 2005 and March 2006. In October 2005, Egypt exported \$12 million in petroleum under the QIZ program, which amounted to 23 percent of total QIZ exports that month. In March 2006, Egypt exported \$3 million in basic metal products or 5.5 percent of total QIZ exports.

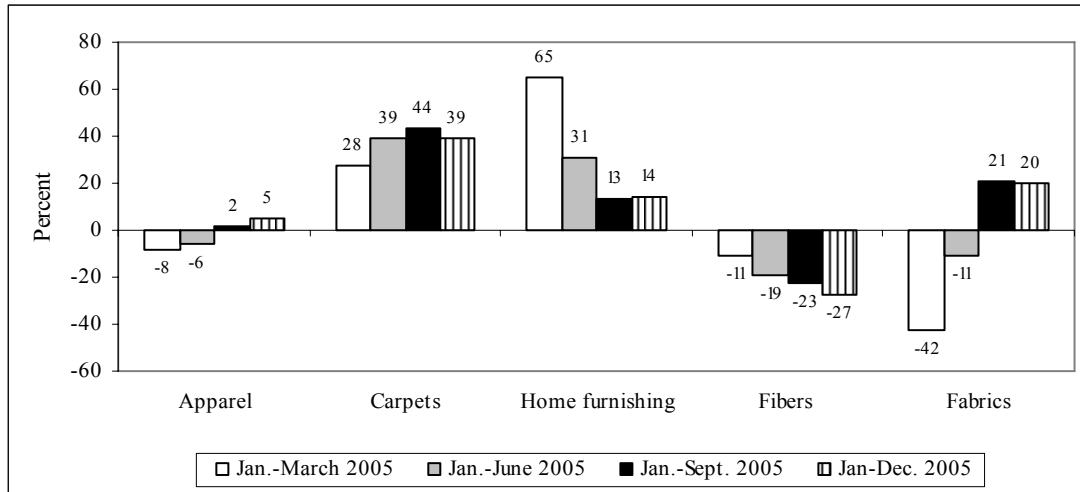
This section discusses the contribution of the QIZ protocol to Egypt's T&C export performance in the US market in 2005. It traces the impact of the protocol on the performance of exporting companies in terms of exports and employment. Characteristics of non-exporting QIZ companies and the constraints facing them are also discussed.

***The Role of the Protocol in Egypt's T&C Export Performance in the US Market***

Performance of Egypt's T&C exports in the US market in 2005 can be judged by comparing it to the performance in past years and to the performance of other countries. Comparison over time must be handled with caution given changing conditions, yet it is still useful as it shows how T&C exports evolved. In 2005, Egypt achieved positive growth rates in apparel exports (5.3 percent), floor coverings (39 percent), home furnishings (14 percent) and fabrics (20 percent), but negative growth in fibers (-27 percent). The positive growth rates of apparel

occurred despite their initial decline during the first half of 2005 compared to 2004 (figure 6). The initial decline in apparel exports can be attributed to the fact that preparation for exports under any new trade arrangement takes time. Besides, the QIZ protocol was signed in December 2004 and since this industry is seasonal, orders are placed far in advance of the start of each season.

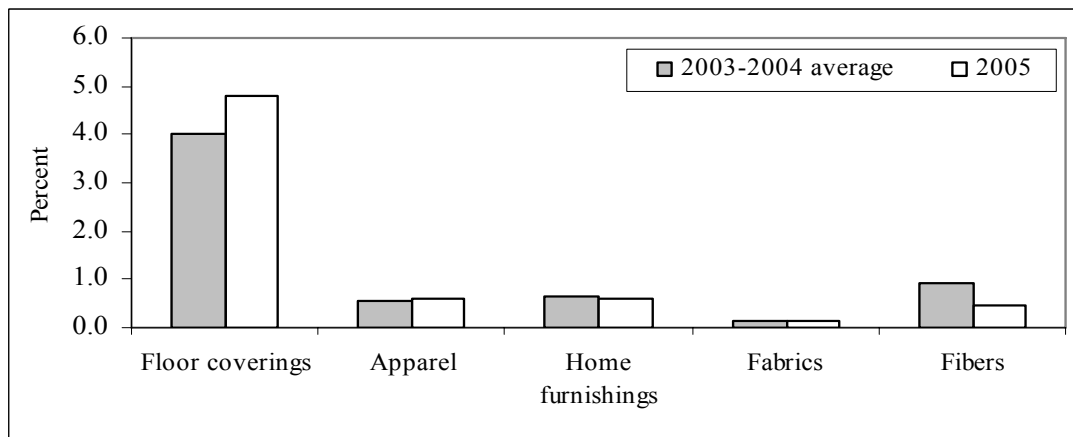
**Figure 6. Percentage Change in Egyptian T&C Exports to the US in 2005 Compared to Corresponding Periods in 2004**



Source: USITC 2006.

These export developments have almost maintained Egypt's share in the US market of imported apparel, home furnishings and fabrics, whereas its share of US imports of floor coverings increased and of fibers declined (figure 7).

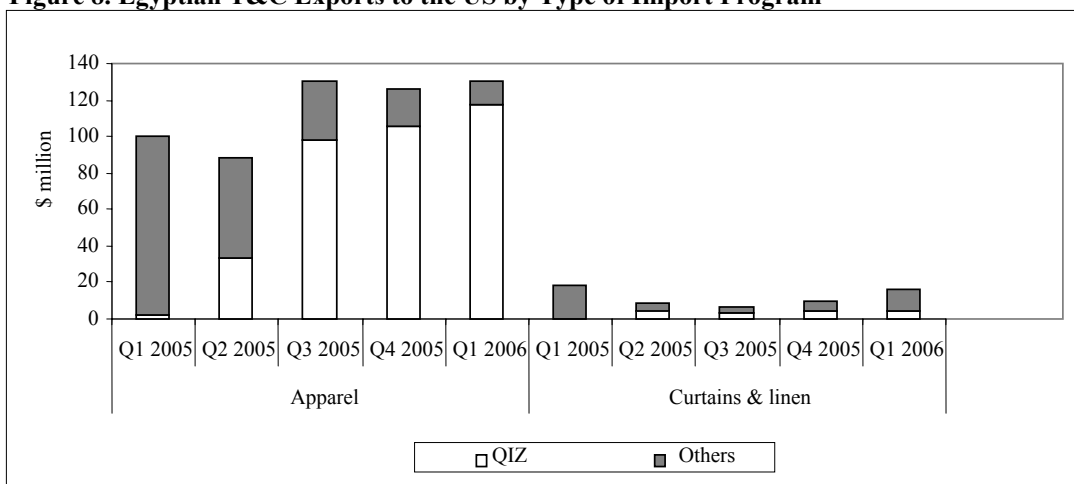
**Figure 7. Developments of Egypt's Share in the US Market of Different T&C Items, 2005 and the Average of the Preceding Two Years**



Source: USITC 2006.

Between March 2004 and March 2005, the share of QIZ exports in Egypt's total exports of floor coverings to the United States averaged 0.6 percent compared to 43 percent for home furnishings and 72 percent for apparel. Therefore, the high growth rate in Egypt's exports of floor coverings to the United States in 2005 cannot be attributed to the QIZ protocol. This can be at least partly explained by the relatively low tariff rates applied by the United States on its imports of this item. While US MFN rates on floor coverings range between 0 and 8 percent, the weighted average on Egyptian exports of this item was only 2 percent in 2004. The low tariffs may not have justified exporting under the QIZ program, which requires sourcing some inputs from Israel at higher prices than their foreign or local substitutes, as will be explained later in detail. In contrast, the relatively higher tariffs on apparel and to a lesser extent on home furnishings gave QIZ companies an incentive to start exporting these items under the QIZ despite the higher priced Israeli inputs (figure 8). In the first quarter of 2006, 90 percent of Egypt's total apparel exports to the United States were under the QIZ import program. As the majority of exporting companies under the QIZ were previous exporters to the United States—some of them even said that their exports would have remained unchanged with the elimination of the quota system—it is difficult to determine the exact role of QIZ in the export performance of apparel. Yet, it is clear that the protocol has helped in preserving price competitiveness of the Egyptian T&C in the US market.

**Figure 8. Egyptian T&C Exports to the US by Type of Import Program**



Source: USITC 2006.

Egypt's apparel performance in 2005 was below that of China, India, Indonesia and Bangladesh—the countries that were expected to benefit the most from the elimination of the quota system—and below that of Jordan, which has a similar QIZ agreement. However, it outperformed Turkey, Mexico, and Korea, which experienced negative growth rates in



apparel exports (USITC 2006). As regards floor coverings, Egypt achieved the highest growth rate among countries with exports exceeding \$40 million. Egypt also achieved the fifth highest growth rate among countries with home furnishing exports exceeding \$32 million. As regards fabrics, Egypt ranked ninth in terms of export growth rate among the countries exporting more than \$8 million worth of fabrics in 2004.

### ***Performance of QIZ Companies***

To determine the impact of the protocol on the performance of qualified companies, 49 exporting companies (from 85 exporting companies as of December 2005) were surveyed. A total of 136 non-exporting companies (out of 336 non-exporting companies) were also surveyed to determine their characteristics and their needs to start exporting. Results for exporting and non-exporting companies are summarized below.

#### *Exporting companies*

The number of exporting QIZ companies increased from 54 companies (Q2 2005) to 70 companies (Q3 2005), to 85 companies (Q4 2005), and to 96 (Q1 2006). Of these companies, 49 companies were contacted. Responses from these companies revealed that 48 of them were already exporters prior to the QIZ protocol and 45 have previously exported to the US market (32 of the 45 companies exported to other markets as well). All companies are privately owned except one textile company. In terms of ownership, five companies are 100 percent foreign and one company had a majority foreign capital (70 percent). In companies with a foreign capital share, foreigners contributed less than 50 percent of total capital. The majority of exporting companies (37 companies) employ more than 300 employees.

As regards the impact of the QIZ protocol on their activities, 38 companies said that, compared to similar periods in 2004, their exports increased after signing the QIZ protocol. The exports of seven companies remained constant whereas the exports of four companies decreased. The average increase in exports was 37 percent. However, this is not the full impact of the QIZ protocol on exports. The true effect must be viewed in light of the expected decline in exports had the protocol not been signed.

The export growth in 38 companies translated into an increase in employment in 33 companies while two companies declared no change in their employment and three companies did not reply to the question. Responses of the 33 companies showed an overall increase of 5,617 workers, mostly Egyptians.

Survey results revealed that exporting companies paid higher prices for Israeli inputs compared to the prices they paid for their domestic/foreign substitutes. The majority of respondents (28 companies) reported that the prices of Israeli inputs were more than 20 percent higher than substitutes, 11 companies reported prices were 10-20 percent higher, and seven companies said the difference was less than 10 percent. Only three companies stated that the prices of Israeli inputs were lower. As to how the higher prices of Israeli inputs were reflected in the prices of exports, 18 companies claimed that their export prices increased, 21 companies said they remained unchanged, and seven companies gave no answer to this question. Israeli inputs replaced domestic inputs in 18 companies, foreign inputs in 12 companies and both domestic and foreign inputs in 19 companies. In the first quarter of 2006, almost half of the imports from Israel were fabrics. The second biggest import item was chemicals (15 percent) followed by zippers, thread and cardboard (each represented about 6 percent of total Israeli imports).

#### *Non-exporting companies*

Besides the 49 exporting companies, the survey also covered 136 non-exporting QIZ companies. All companies were privately owned except for one spinning and weaving company. Only 26 of the non-exporting companies employed 300 or more workers. Of the sample, 54 percent had previously exported to the United States and/or to other markets. The companies that previously exported to the US market (27 companies) were asked to identify the reasons behind not exporting under the QIZ program until the time of conducting the survey (in March 2006). Competition in the United States after the removal of quotas was identified as a major constraint in 13 cases. Far below in importance came factors such as financing, time required to prepare for exporting and others as shown in table 1 below.

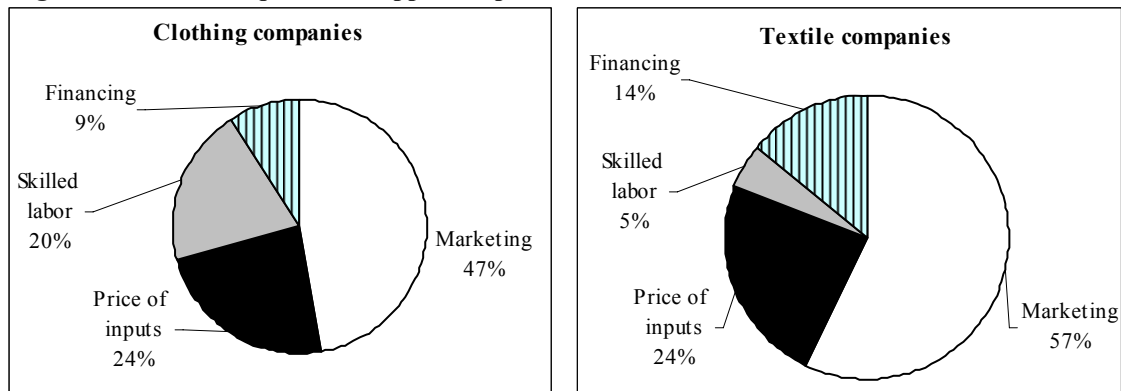
**Table 1. Why Previous Exporters to the US Have Not Yet Exported Under the QIZ**

Factor	Frequency
Competition in the US market	13
Finance	4
Preparation for exports	2
Marketing	2
Producing for others	1
Change in factory location	1
No exporting opportunity	1
Unavailability of suitable Israeli inputs	1
Rise in input prices	1
Political reasons	1
Unspecified	2

Source: Survey results.

Non-exporting QIZ companies were then asked about the kind of services they need to start exporting under the QIZ protocol. Of a total of 57 non-exporting clothing companies, 47 percent stated that they needed help with marketing their products, 24 percent stated that Israeli inputs are too expensive and there is a need to reduce the requirement from 11.7 percent to 8 percent as in the case of Jordan, 20 percent reported that the unavailability of skilled labor is a major constraint to exporting, and 9 percent mentioned problems related to financing and availability of liquidity. Marketing also represents a major problem for a total of 42 non-exporting textile companies. Second came the availability of cheaper inputs followed by financing and labor (figure 9).

**Figure 9. Services Required to Support Exports**



Source: Survey results.

To summarize, in the short run, the QIZ protocol has at least prevented a decline in Egypt's competitiveness in the US market. It resulted in increases in exports of major companies, which in turn reacted to the rise in exports by increasing employment. Yet, exports came mainly from previous exporters. As regards constraints to exports, non-exporters in the clothing and textile industries highlighted marketing and to a lesser extent input prices. Companies expressed the need to reduce the share of Israeli inputs in the local content requirement because they proved to be more expensive as compared to their substitutes.

## V. A LONG-TERM OUTLOOK OF THE IMPACT OF THE QIZ PROTOCOL

Based on the results of the protocol in 2005 and early 2006, this section provides an outlook of the impact of the protocol on T&C exports to the United States and the extent to which the economy is expected to benefit from these exports.

### ***Impact of the Protocol on the Value of Exports***

Ultimately, the impact of the protocol on the value of exports will depend on the ability of firms to export and expand, and on enhancing investment inflows to the qualifying zones.

#### *Export potential of existing firms*

A recent study commissioned by the QIZ Unit in collaboration with the Industrial Modernization Center, aimed at evaluating the export readiness of 193 T&C QIZ companies (Context 2006). It concluded that only 59 percent of these companies would be able to continue exporting in the future. The rest (41 percent) have low or no export potential even though some of them are currently exporting. Export readiness was evaluated based on a composite index of six elements;<sup>14</sup> competitive position,<sup>15</sup> availability of an export plan,<sup>16</sup> availability of export resources,<sup>17</sup> availability of export tools,<sup>18</sup> knowledge of export finance,<sup>19</sup> and commitment to export and local position.<sup>20</sup>

The study showed that export readiness varies significantly across companies. It divided companies into four categories according to their scores in the export readiness index. Companies scoring 85-100 percent are identified as export excellent (14 companies).<sup>21</sup> Companies scoring 70-85 percent are export ready (31 companies).<sup>22</sup> Companies scoring 55-70 percent are export capable (69 companies).<sup>23</sup> The companies under these three categories

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<sup>14</sup> These elements are given different weights according to their relevance to the export operation. Weights also differ according to whether the company is an exporter or produces only for the local market. The highest weight is given to the competitiveness element (42 percent for exporters and 37 percent for non-exporters). Commitment to exporting and strength in the local market is given no weight for exporters and 12 percent for non-exporters.

<sup>15</sup> Competitiveness includes price, quality and lead time in comparison to competitors. It also covers the ability to deliver on time, product development capacity, and internal organization of the company.

<sup>16</sup> Availability of an export plan measures elements such as the availability of clear export targets, and knowledge of target markets and marketing channels.

<sup>17</sup> Export resources comprise human resources, finance, capacity and IT infrastructure.

<sup>18</sup> Availability of export tools includes ability to price according to shipping arrangements, customer service personnel, availability of marketing, materials and English speaking skills.

<sup>19</sup> Export finance concerns the ability to source credit against export orders and to finance additional working capital.

<sup>20</sup> Commitment to exports and strength in the local market includes local market segment, strong local brand name, and top management commitment to exporting.

<sup>21</sup> These are companies that have deep understanding of export markets, their export market is growing, and have some degree of control over their choice of clients.

<sup>22</sup> They are experienced exporters; they have salable products but require intervention in upper and middle management to improve their export potential.

<sup>23</sup> This means that they have a salable product, some degree of exposure and have a sustainable export operation.

have sustainable export operations, but need some form of intervention to upgrade their capacity particularly in areas related to product development and training of human resources especially middle management. They export to the US market as well as other countries. Low potential companies score less than 55 percent in the export readiness index. Some of these companies export but they can easily lose their markets if there is a slight change in their competitiveness.

Competitiveness ranked lowest among the different components of the readiness index for all export readiness categories. Price compared to competitors was the weakest point in the competitiveness of all surveyed companies followed by factors such as lead time and quality and training of employees. Availability of export resources was the second lowest scoring component of the export readiness index for different categories. Export-capable companies scored below 50 percent in the ability to finance expansions in working capital and in the availability of human resources.

Although this study (Context 2006) covered about 34 percent of registered QIZ companies, it is obvious that not all QIZ companies will export to the United States in the future. If competitiveness of existing companies does not improve, it is expected that only about 60 percent of companies will eventually export to the United States. This conclusion is based on an assumption that the results of the study (about 59 percent of the companies have sustainable export operations) can be generalized to the whole set of companies. Also, according to statistics of the QIZ Unit of the Ministry of Trade and Industry, 40 percent of QIZ companies have previously exported to the United States. If we assume that these companies will continue to export to the United States and some exporters to other countries will extend their markets to include the United States, exporting companies can reach 60 percent of total QIZ companies in the future. Export growth per company will vary and expansions will be an important determinant of these variations.

#### *Ability of existing companies to expand*

As indicated by the statistics of the QIZ Unit, 80 percent of QIZ exports come from 20 percent of exporters. Significant expansions are thus expected from a limited number of companies. Yet, there are limits on the ability of these companies to expand as indicated by one of the exporters. To date, the General Authority for Investment (GAFI) announced that there are a total of 17 expansions in existing QIZ companies with investments of \$107 million.

### *New investments*

New investments are another important determinant of the export potential of T&C. GAFI announced that as of March 2006 there were 19 new investment projects with a total investment of \$63.3 million, and 30 new projects underway with a total investment of \$62.9 million. New investments during the first year of QIZ Egypt (\$126 million) were close to average annual QIZ investments in Jordan (\$125 million from total investments of \$750 million over six years). The question is: Will investments in QIZ Egypt grow at the same, higher or lower rate compared to investments in QIZ Jordan? There are factors that support lower investments in Egypt while others argue in favor of higher investment prospects.<sup>24</sup>

An important factor suggesting that foreign investment flows into Egypt will be lower is the difference in timing between QIZ Egypt and QIZ Jordan. When the Jordan QIZ came into effect in 1999, Jordan was sheltered from fierce competition in the US market for more than five years. The MFA was still in place and US preferential trade arrangements were relatively limited. Moreover, quotas on T&C have also helped in the relocation of some Asian textile and garment companies to settle in Jordan to circumvent US quotas (Kardoosh 2004). Egypt's delayed signing of the QIZ protocol has deprived it of these favorable factors. Another negative factor is the limited availability of industrial infrastructured land in Egypt as compared to Jordan.

Factors that suggest better prospects for Egypt include its relatively lower operating costs (table 2) and possession of an integrated T&C industry. Moreover, if investment flows from Asian countries are to slow down after the elimination of quotas, considerable flows are expected from Turkey, which is losing competitiveness due to currency appreciation and high energy prices. Egypt's FTA with Turkey can help attract these investments to Egypt.

**Table 2. Operating Costs in Egypt and its Comparators**

	Egypt	Jordan	Turkey	India	Tunisia	Italy
Labor cost (\$/hr)	0.4	0.9	2.8	0.5	1.2	15
Electricity (cent/KWh)	3	5	7.7	8.6	10	9
Water (Cent/m <sup>3</sup> )	21	180	46	70	156	28
Natural gas (cent/m <sup>3</sup> )	2.5	-	26	24.5	-	21
Building costs (\$/m <sup>2</sup> )	120	200	180	140	400	480

*Source:* American Chamber of Commerce in Egypt 2006.

<sup>24</sup> Discussion here is confined to foreign direct investment as it is difficult to predict a course for domestic investment.

Given the above factors, one can predict that foreign investment flows into Egypt will be at least as high as in Jordan. However, Egypt can draw more foreign investments if it succeeds in providing a smooth start to early investment flows. Yet, this requires an active role on part of the General Authority for Industrial Development in improving access to industrial land.

Ultimately—and absent improvements in firm competition—it is expected that exports will come from about 60 percent of QIZ companies. Significant shifts in export volumes will be closely related to expansions in major exporting companies and to new investment. A significant improvement in Egypt's apparel exports is expected in 2007 when new investments start production. The extent to which the economy is likely to benefit from future exports is discussed next.

### ***Net Benefits to the Egyptian Economy from Increased Exports***

To fully measure the impact of the QIZ on the Egyptian economy, it is important to consider the net benefits accruing to the economy from exports. In Jordan, net benefits to the economy from the surge in QIZ exports were claimed to have been comparatively small. The reasons are several. First, although job creation from QIZs has been significant, only 57 percent of these job opportunities have been occupied by Jordanians. Second, QIZs in Jordan have not created significant backward linkages due to its narrow industrial base and the tendency of foreign investments in the QIZ sector to import inputs rather than rely on domestic suppliers (Kardoosh 2004). Third, about 52 percent of investment in qualified zones in Jordan are foreign (45 percent Asian and 7 percent others), implying that substantial profits from exports accrue to foreigners.

For Egypt, it can be said that the potential benefits from increased exports will be greater than those for Jordan, especially as regards labor. Egypt has an abundant labor force and the possibility of employing foreigners is limited. According to Ministerial Decree 136/2003, foreign workers should not exceed 10 percent of total employees in any firm. Exemptions from the 10 percent are granted by the Ministry of Manpower. According to the decree, foreigners should not compete with Egyptians. Besides, companies employing foreign experts have to assign Egyptians to work closely with them to acquire experience.

The T&C industry in Egypt is also more integrated, suggesting a greater stimulus to the economy from increased clothing exports. Even though some of the domestic inputs of

fabrics, zippers, and others have been replaced by Israeli inputs, the expected increase in exports would probably overcome these negative effects on backward linkages, especially if the Israeli input requirement was negotiated down to 8 percent. As regards profits, the current profile of QIZ companies in Egypt suggests that more profits will accrue to the national capital compared to Jordan. However, the more foreign direct investment (FDI) in the sector, the more profits will go to foreign investors.

## **VI. MAXIMIZING THE BENEFITS TO THE T&C SECTOR**

New opportunities are emerging for Egypt's T&C exports as existing sourcing companies are increasing their demands, sourcing companies that left Egypt years ago are returning and there are newcomers. Yet, benefits to the economy will ultimately depend on the ability of the T&C industry to respond to the rising demand. Promoting FDI is one approach to increase supply response. This requires the General Authority for Industrial Development to play an active role in developing and promoting access to industrial infrastructured land, which proved to be a constraint on foreign investment flows (Awny 2006). As investment inflows increase and against the background of a potentially booming apparel industry, Egypt needs to target investments in downstream industries such as spinning, textile mills and printing. There is also a need to develop long-term partnerships between foreign and domestic investors to stabilize foreign investments in the clothing sector that are "footloose."

More importantly, Egypt needs to encourage domestic investment and enhance the competitiveness of companies. Promoting domestic investment requires improving the business environment and removing constraints to doing business, especially as regards dealing with licenses, getting credit and registering property.<sup>25</sup> Increasing competitiveness, which is still a concern despite the preferential access to the US market requires adopting short and long-term measures. In the short run, the government should work to reduce the share of Israeli inputs in local content to 8 percent. Longer term solutions include developing apparel exports of MMF, upgrading product development capacities of T&C companies, and strengthening the linkages between low export potential companies and larger companies to

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<sup>25</sup> Egypt scores very low as to the ease of doing business index of the World Bank with a ranking of 141 from a total of 155 countries. Its rankings for the different components of the index are as follows: starting a business (115), dealing with licenses (146), hiring and firing (140), registering property (129), getting credit (142), protecting investors (114), paying taxes (87), trading across borders (70), enforcing contracts (118) and closing businesses (106).



coach them on quality standards in production, solve their marketing problems and sustain entrepreneurship.<sup>26</sup>

The need to promote exports of apparel made of MMF is apparent. The relatively higher tariff rates on these exports compared to apparel made of cotton will give Egypt a larger preference margin and thus greater ability to face international competition. It is also highly recommended that education in Egypt gives more support to the T&C industry. That is, there should be greater emphasis on textile and clothing related education that provides a global understanding of the industry ranging from textile fiber, to design and production, to sourcing and merchandising. This will enable local manufacturers to reposition and explore niche markets.

As regards increasing the competitiveness of companies of low potential export, Asian experience showed that strengthening linkages with larger companies can be a viable option especially through subcontracting relations.<sup>27</sup> Countries like Japan, Korea, China, Taiwan and Singapore have relied heavily on subcontracting linkages in developing their small and medium enterprises (SMEs). Some countries like Japan and Korea went further by establishing a legal framework for subcontracting. In 1970, Japan enacted a law on the promotion of subcontracting SMEs. It provided for the establishment of subcontractor promotion associations to provide referral services by searching for clients at the request of subcontractors and introduce subcontractors to foreign investors. In performing these services, the aforementioned associations rely on databases of subcontractors that they manage. According to the law, cooperatives organized by subcontractors in different industries develop plans for managerial development of concerned subcontractors, which the government supports financially. The Japanese government also develops and announces rules concerning business relations between subcontractors and their client companies. In 1996, 51.3 percent and 45 percent of Japanese firms (employing less than 300 employees) in the textile and

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<sup>26</sup> The listing is not intended to be exhaustive, but to pinpoint some measures deemed important for the competitiveness of Egyptian products. Other measures include speeding up the privatization of the spinning and weaving industries, adopting programs to upgrade labor skills, establishing private-public partnership initiatives to tackle infrastructure problems that delay exports.

<sup>27</sup> Subcontracting is a contractual relationship in which a large firm asks a small firm to conduct a commissioned work (producing parts, components, or finished products) under a dominant position. There also seems to be a general consensus that subcontracting is a long-term arrangement. A one-off transaction is not a subcontracting arrangement.

apparel industries respectively were subcontractors of a single primary firm (Tamangan, Josef, and Habito 2004).

In Korea, the government enacted the Sub-Contracting Promotion Act in 1975 to promote cooperation between large firms and SMEs. This act specifies certain products to be produced exclusively by SMEs.<sup>28</sup> SMEs producing the designated products are advised to submit plans for facility modernization and quality improvement and they get preferential long-term credit and technical assistance if these plans are approved by the Ministry of Trade and Industry. Subcontractors and their clients are also encouraged to work out a business plan to ensure stable subcontracting relations.

In Egypt, subcontracting relations exist and the National Supplier Development Program (NSDP)<sup>29</sup> provides a framework to increase the efficiency of subcontractors. NSDP aims at upgrading the capacities of local suppliers of the largest 100 manufacturing companies through identifying the needs of each supplier to meet the standards of the large company and providing technical assistance to close the needs gaps. Nevertheless, the benefits of NSDP are confined to a limited category of companies (affiliates of the 100 large companies) and are dispersed across different industrial sectors. To widen the scope of subcontracting in the T&C industry, several steps are needed. The first is to establish subcontracting exchanges, which are "technical information, promotion and match-making centers for industrial subcontracting and partnership between main-contractors, suppliers and subcontractors, aiming at the optimal utilization of the manufacturing capacities of the affiliated industries" (INSME). This should be supplemented by further steps such as developing a well-designed program of incentives and support for contractors and subcontractors.

## CONCLUSION

This study has shown that the QIZ protocol was an opportunity that Egypt could not have afforded to miss. Without the protocol, Egyptian exports of T&C were destined to decline and marginal exporters would have lost their markets. Yet, QIZ is only a temporary remedy to the problems facing the T&C industries in Egypt and serious steps should be taken to increase its competitiveness. QIZ is also a second best if it is put in the context of a trade policy that aims

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<sup>28</sup> The number of designated items was 1,053 in 1996.

<sup>29</sup> NSDP is under the Industrial Modernization Program.

at further liberalization of the economy. Egypt should target an FTA with the US and preferably unilateral trade liberalization.

The study has also shown that, in addition to the averted losses, the QIZ protocol contributed to an increase in apparel exports by 5 percent in 2005, at a time when Turkey and Mexico achieved negative growth rates. It pointed out that major Egyptian exporters were able to increase exports and employment and expand their investments. However, exporting was confined to companies that export already. Yet, this result is expected, as acquiring export skills and producing competitive products is a process that requires time especially after long years of heavy trade protection.

In the long run, the impact of the QIZ on T&C exports will depend on FDI inflows and the ability of existing firms to export. FDI inflows are expected to total at least as much as the inflows into Jordan due to the QIZ protocol. As regards the response from domestic producers, significant export expansions are expected from a small number of companies identified as export excellent according to the export readiness index. Other companies require different degrees of intervention to improve their competitiveness. Shifts in export values of T&C are expected by the year 2007.

In a nutshell, maximizing benefits from the QIZ requires improving the competitiveness of domestic companies. The government would do well to renegotiate the share of Israeli input in local content requirement. As for companies, they need to develop their apparel exports of MMF, while the government and business community should support the development of well-established linkages between large and smaller companies. The education system should also become more attuned to the industry through developing more programs related to product development.

APPENDIX

QUESTIONNAIRE ON THE QIZ PROTOCOL

Company name: _____	
Public <input type="checkbox"/>	Private <input type="checkbox"/>
Activity (clothing/food/other): _____	
No. of employees _____	Foreign capital to total capital (%) _____

1. Did your company export prior to the QIZ Protocol (Feb. 2005)? Yes  No

If yes, was the export destination to: US  Others

2. If the US is the destination, what if this protocol had not been concluded? Your exports would have ...

Remained the same  Decreased  Percent of decrease \_\_\_\_\_ (%)

3. Has your company exported to the US under the QIZ Protocol? Yes  No

4. If yes, how has the value of your exports changed compared to same period last year?

Remained the same   
 Increased  Percent of increase \_\_\_\_\_ (%)  
 Decreased  Percent of decrease \_\_\_\_\_ (%)

- In case of an increase, what has been the impact on employment?

Remained the same   
 Increased  Percent of increase \_\_\_\_\_ (%) Share of local labor in the increase \_\_\_\_\_

- Have Israeli inputs replaced inputs from other countries or domestic inputs?

Imported inputs  Domestic inputs

- Price of Israeli inputs compared to that of substitutes is ...

Higher  Same  Lower

- If higher, please identify by what percent.

Less than 10%  10%-20%  Higher than 20%

- If the price of Israeli inputs was higher, what was the effect on your company's final product prices?

Remained the same   
 Increased  Percent of increase \_\_\_\_\_ (%)

5. If your company has not exported to the US under the QIZ Protocol, please check the reason why, indicating the intensity of the constraint (where 0 = does not affect exporting, and 3 = has a very significant impact).

	0	1	2	3
Intense competition				
Non-trade constraints				
Weak competitiveness of the final product (quality/price)				
Business environment not conducive to exporting				
Other (please identify)				

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