



Impact of MFA Removal in Egypt

Background Study Prepared for the World Bank
Presented at the ECES

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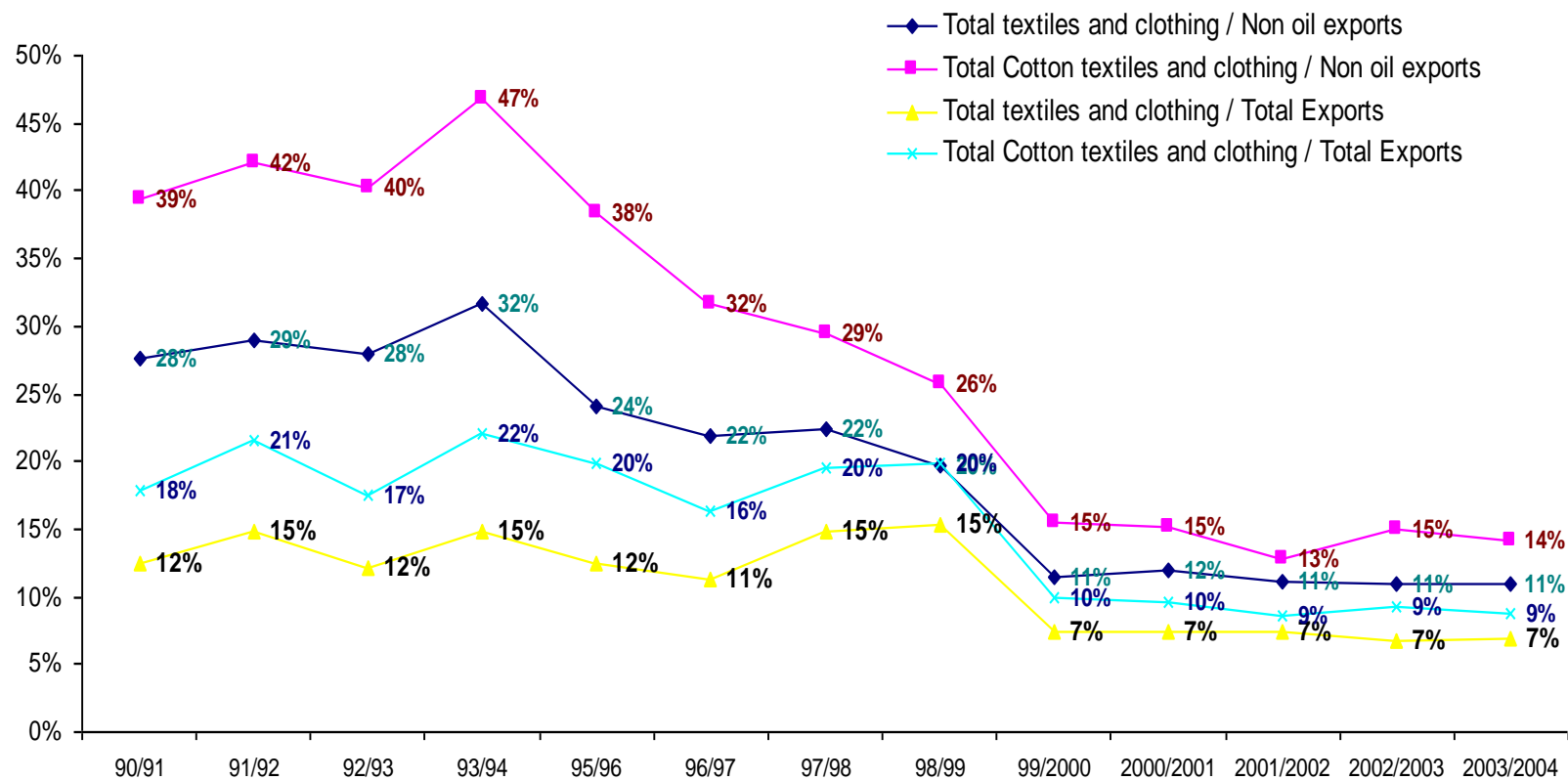
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- Importance of the Industry in Egypt
- Structure of the Industry
- Status of exports' performance
- Specific Features of the Industry
- Situation before and after MFA Removal
- Policy Reforms Needed (Short and medium run)
- Policy Implications (long term vision)

Importance of the Industry in Egypt

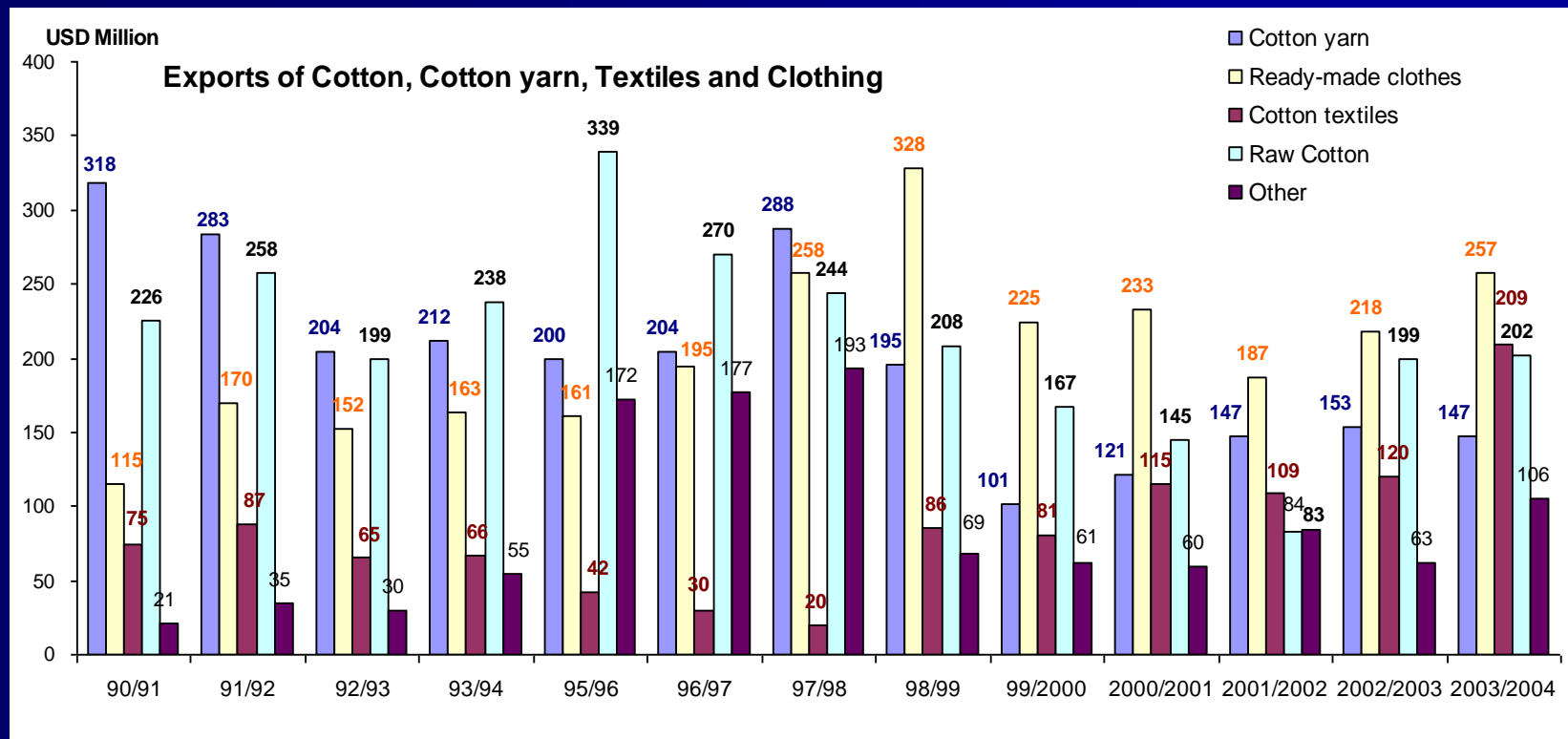
- 27% of total industrial production (3% of GDP)
- Largest employer in the economy
- Highest value added and second position in terms of production
- 24% of total non-oil exports' revenues

Position of the Industry in Trade



Source: Central Bank of Egypt, Annual Time Series, 2004.

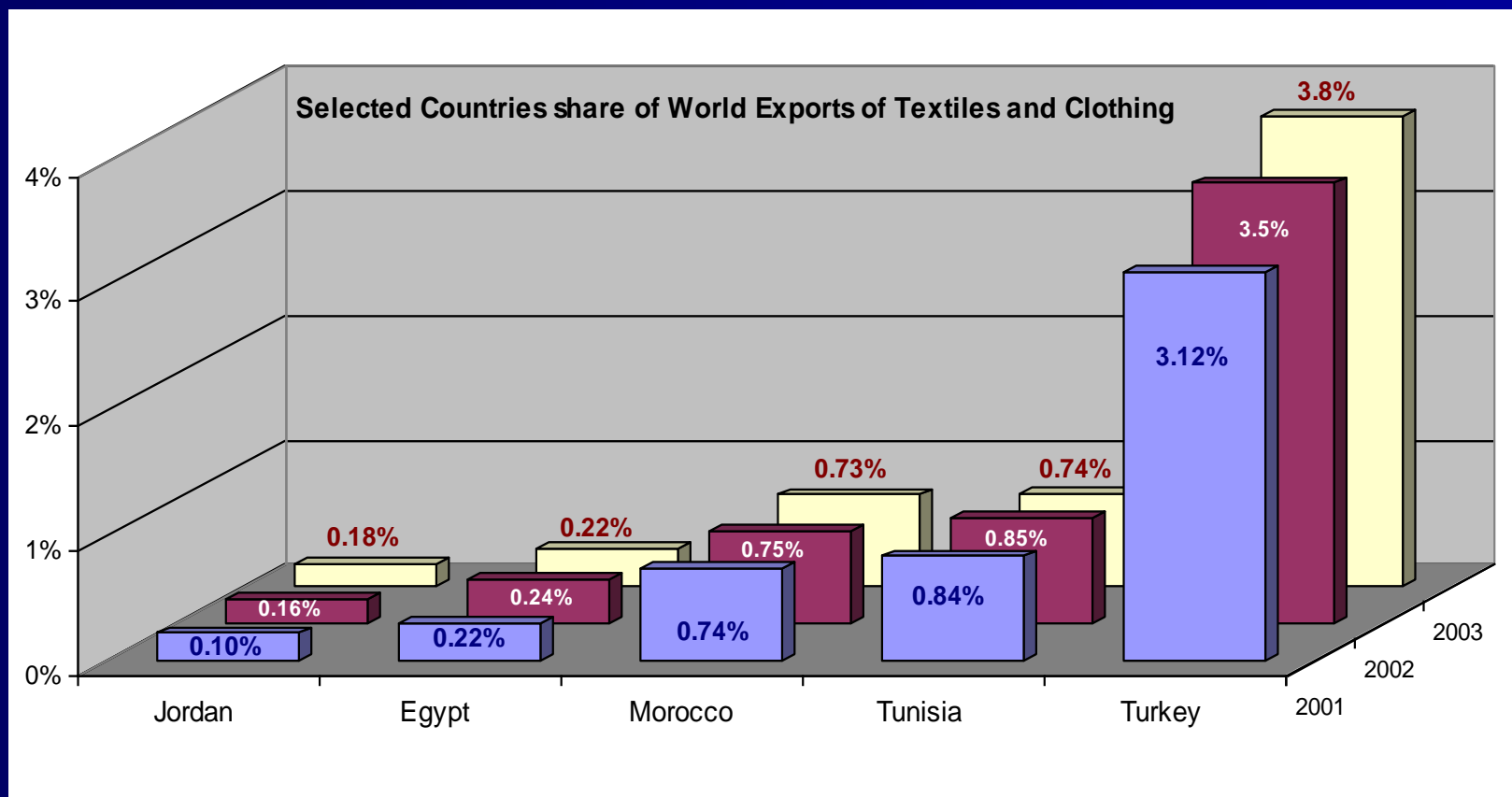
Different Components of Egyptian Textiles and Ready Made Garments Exports



Source: Central Bank of Egypt, Annual Time Series 2004.

* Others include carpets, blanket sheets and other products.

Share of Egyptian Exports of Textiles and Ready Made Garments out of Total World Exports



Source: COMTRADE Database 2005.

Structure of the Industry

- Private versus public firms
- Number of workers
- Capacity utilization
- Vertical integration

All such points have significant impact on policy implications as elaborated in the last slide (calculus of job creation in the industry, investments needed to upgrade the public sector, etc)

Distribution of Productive Capacities among different sectors of the Industry in Egypt

Sector	Public	Private and Investment
Spinning	90%	10%
Weaving and Finishing	60%	40%
Tricot	30%	70%
Apparel	30%	70%

Source: Textiles Consolidation Fund (2004)

Specific Features of the Industry:

- Low wages but low productivity.
- Average wage of Egyptian worker *per week* is almost equivalent to the average wage *per hour* in developed countries.

Problems related to privatization

- There is high *concentration of labor* in Gharbia and Behira governorates constituting around 48% of labor in the public sector compared to the high *concentration of firms* in Cairo and Alexandria accounting for 48% of firms. This has serious implications on the way privatization programs are designed and should be taken into consideration

Geographic Distribution of State-owned Plants and Factories versus Labor Force

Governorate	Plants and Factories		Labor force	
	Total	% of Total	Total	% of Total
Alexandria	12	32%	17873	15%
Cairo	6	16%	14585	12%
Behira	6	16%	25804	22%
Giza	2	5%	3148	3%
Dakahlia	2	5%	6049	5%
Sharkia	1	3%	2581	2%
Gharbia	2	5%	31081	26%
Kalioubia	1	3%	2945	2%
Beni Suef	1	3%	2205	2%
Port Said	1	3%	970	1%
Damietta	1	3%	3455	3%
Sohag	1	3%	3018	3%
Menoufia	1	3%	5564	5%
Total	37	100%	119278	100%

Source: Ministry of Investment, Unit of Industrial and Labor Relations, (2005), unpublished data

Privatization progress: (July 2004 – September 2005)

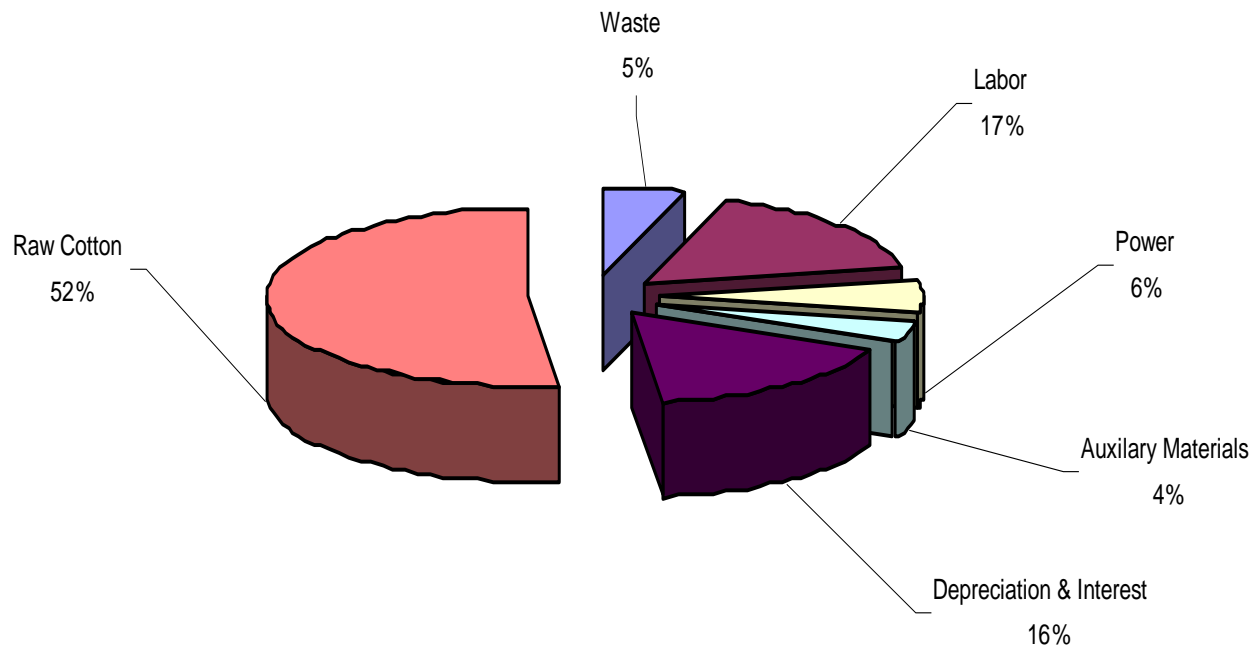
	No. of Transactions	Sales Proceeds (L.E. Million)
Sales Transactions in all sectors (excluding non productive real estate assets)	35	9,570
Textiles related sales transactions	2	16
<i>% of Total</i>	<i>0.7%</i>	<i>0.17%</i>

Source: Egyptian Investment Portal, www.investment.gov.eg

Problems related to costs structure

Estimated Cost Structure in Textiles

Estimated Manufacturing Costs for the Egyptian Textiles Industry



Problems related to transportation

**Clearance time has been heavily
Reduced**

**but still transportation costs are
high**

**Data differ significantly when
domestic versus international
sources are compared**

Technical Status of Machines and Productive Capacity in Public Sector

Activity	Age less than 5 years	Age less than 10 and larger than 5	Age larger than 15
Cotton yarn	5%	23%	72%
Cotton fabric	2%	6%	92%
Cotton finishing	7%	6%	87%
Wool yarn	-	10%	90%
Wool fabric	-	10%	90%
Wool finishing	11%	3%	86%
Apparel	20%	10%	70%
Medical Cotton	1%	14%	85%

Situation before and after MFA Removal

- Before MFA:

In general, quota was always underutilized with the exception of few years and few products.

It is not only Egypt where the quota has not been binding. Other countries, including China, Hong Kong and Sri Lanka which are supposed to be more competitive experienced the same phenomenon of non binding quotas.

However, Egypt represents a potential threat to the EU and as a result it *has been the only country* in the region that has been subject to the surveillance and double checking system for a number of exported products from Egypt to the EU

Situation before and after MFA Removal

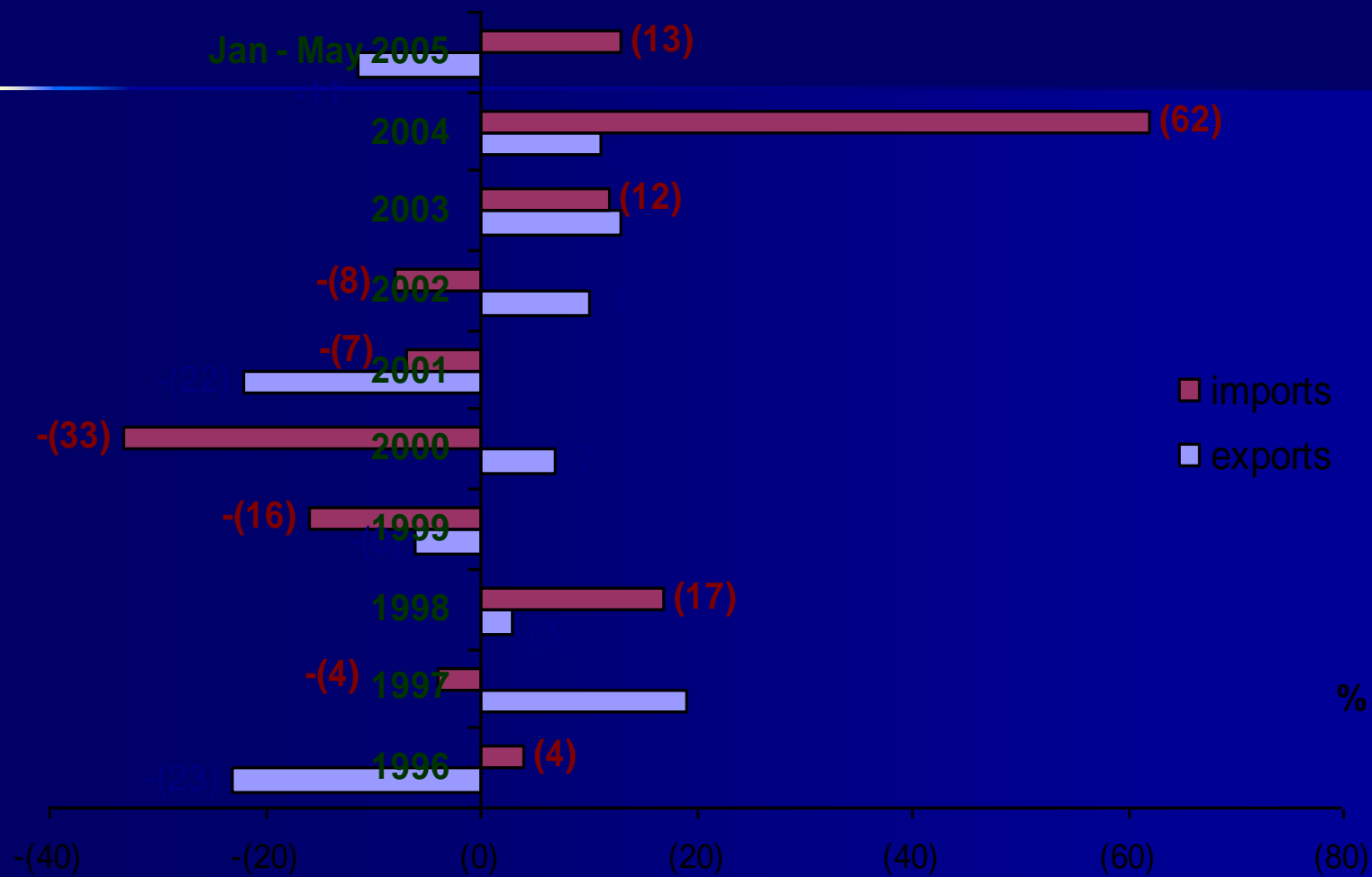
- After the MFA:

Egyptian exports of textiles and ready made garments did not face a huge decline in the period January-May 2005 compared to the period January-May 2004 where exports declined only by 11% whereas they increased by 23% when comparing the period January-May 2005 with the period January-May 2003

Situation before and after MFA Removal

- The trade balance has always been positive where exports of textiles and clothing have always exceeded imports. However, such statement should be treated cautiously as following the MFA, Egypt had the waiver of abandoning the imports of textiles till 1/1/1998 and the imports of ready made garments till 1/1/2001.

Annual percentage change in exports / imports of textiles and clothing



Bottom line

*No surge in imports due to
maintenance of high protective
measures*

Policy Reforms Needed (Short and medium run)

- Overall strategic reform plan
- Cotton pricing and cotton policy
- Restructuring of the public sector
- Early retirement program
- Reluctance to comply with WTO rules and regulations
- Signing the QIZ

Reluctance to comply with WTO rules and regulations

Is the industry domestic oriented, export oriented, or in an intermediate phase moving from domestic to export oriented?

Role of political economy aspects, social and political pressures: how to be dealt with in such a complex environment?

Signing the QIZ

Maintaining the level of exports: Yes, but is it sustainable?

Future of QIZ in light of Jordanian experience

Which is better for Egypt: an FTA with US or QIZ?

QIZ: Is it the only solution, what about EU and AGOA (untapped potential)

QIZ or FTA?

- There are several issues “in theory” that might divert the attention “based on conventional wisdom” that FTA is better.
- In depth analysis might suggest something else: reasons: rules of origin, complexity of complying with US demands, etc

Cotton pricing and cotton policy

- Why cannot we fix the cotton pricing problems? Political economy reasons have been relaxed....
- Why is the industry, using the mode of reform prevailing, incapable of allowing importation of short staple cotton and needed yarn. The time is NOW
- Why there exists no lobbying to lessen the obstacles of importing cotton (double fragmentation process)

Policy Implications (long term vision)

- Building competitive advantage in US market based on non tariff preferences
- Making *effective* use of geographic proximity to EU: Products with short lead time (diagonal cumulation of rules of origin, identifying specific niches)
- Devoting more attention to costs of creating jobs calculus in the industry
- Implementing the export subsidy system in a better efficient manner (carrot and stick approach, avoiding rent seeking, efficient release of subsidies)

Policy Implications (long term vision)

- Adopting a new cotton policy (a clear vision on what is needed, allowance of imports of short staple cotton, identifying a formula that improves the vertical integration in the industry)
- Finding new niches: technical textiles for example
- Continuing reforms on the borders (trade facilitation)
- Making use of AGOA initiative
- Injecting investments in the public sector