

Value Chain Analysis for Home Textiles from Egypt

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Structural transformation and export diversification into higher value-added products, away from primary commodities remain major development objectives for low and middle-income countries (LMICs). The textile and apparel (T&A) sector has traditionally been a gateway to export diversification for LMICs, so entry into these industries is generally regarded as a first step for developing countries embarking on an export-oriented industrialisation process. Given the rather low entry barriers (low fixed costs and relatively simple technology) and labour-intensive nature, this sector can absorb large numbers of unskilled workers and provide upgrading opportunities into higher value-added activities within and across sectors. However, the defining characteristics of the T&A sector also mean that it is a very competitive sector, leaving many suppliers with limited leverage and facing challenges in ensuring social and environmental sustainability, as well as longer-term development benefits.

The home textile (HT) sector is a sub-sector of the broader T&A sector that uses textile inputs and fabrics to produce products such as bed linen, curtains and furnishing articles. The transformation required for home textile products is generally more limited than for apparel products that also use textile inputs, such as fabrics.

In Egypt, the objective to develop the T&A sector is an important pillar of the country's Vision 2035 strategy, which is why the sector is promoted by a comprehensive set of policies and institutions. The overall goal is to improve the vertical integration of the sector, modernise the industry, increase exports, and create employment.

The HT global value chain (GVC) represents a classic example of a buyer-driven value chain that is characterised by decentralised, globally dispersed production networks, coordinated by leading businesses that control the activities that add value to products, such as design and branding, but often outsource all or most of the manufacturing process to a global network of suppliers. Exporting to the EU or the US is highly demanding and — depending on the specific value chain — margins are often very low. Integration with the EU and US value chains can nonetheless have important learning effects and support manufacturers in exporting to markets with higher margins. Egypt has, in addition, not only market opportunities in key consumption markets, but also in regional markets with high growth potential and in the relatively large local market.

This report highlights that the Egyptian HT sector has many strengths and the potential to increase exports as a regional and global supplier of HT products. The major competitive advantages of the sector include:

1. local availability of high-quality ELS cotton, which is a key input for many high-value HT products;
2. an almost vertically integrated value chain with a large textile and apparel sector;
3. well-developed infrastructure;
4. flexible production lines accommodating large as well as small orders;
5. duty-free and quota-free market access to key consumption markets (US and EU);
6. an institutional environment that is committed to support the sector and improve its performance through a variety of policies.

In order to improve the sectoral export performance and take advantage of the opportunities, the key bottlenecks in the T&A sector need to be tackled. Some constraints are structural in nature and will take time to solve on a large scale. Reducing key bottlenecks on a step-by-step basis will nonetheless help to gradually increase exports. The key obstacles include:

1. gaps related to the vertical integration of the T&A sector, in particular bottlenecks in the dyeing, printing and finishing segments of the textile industry, as well as limited use of extra-long staple (ELS) cotton as an input for domestic processing;
2. lack of innovation and limited workers' capabilities;
3. limited access to finance, in particular for SMEs;

4. limited capacities and capabilities of many SMEs to meet global buyer requirements;
5. the partially negative reputation of Egypt as a supplier country, and the difficulty to fully exploit its unique selling point (USP), Egyptian cotton;
6. the environmental and social sustainability issues in the cotton, textile, and home textile sub-sectors.

In particular, the lack of capacities and capabilities of locally owned SMEs to link to GVCs and meet buyers' requirements highlights the importance and potential of supporting measures such as the ones CBI offers.

The industrial policy focus and strategic orientation of the Egyptian government could leverage CBI's mandate to work on sustainable economic development with a focus on improving sector competitiveness through the promotion of BSOs as well as locally owned SMEs in their 'last step' towards exporting to the EU market, to create an integrated approach that could play an important complementary role in facilitating private sector development in general, and export growth to the EU in particular.

Taking into account CBI's focus on supporting SMEs, trends in the EU market, and Egypt's HT sector structure, this report identified the following high-potential product-market combinations (PMCs):

- Mid-high to high-end bed linen made from Egyptian cotton
- Mid-high to high-end terry products (esp. towels) made from Egyptian cotton

The selected PMCs are in line with the sector strategy of the Egyptian government to promote the vertical integration of the textile sector, and aim to leverage the competitive advantages of the Egyptian HT sector, in particular the local availability of ELS cotton. The selected PMCs also take into account key HT market trends in the EU, such as wellness, individuality and style, as well as increasing consumer awareness regarding sustainability issues and increasing demand for sustainable products, such as organic cotton products or products made from recycled materials.

If CBI implements a project in support of local apparel SMEs in Egypt, it is also important to ensure its sustainability and maximise its impact. Connecting with key government institutions and, depending on the project, key relevant donors will be crucial to avoid redundancies, identify complementarities and maximise the impact of CBI's programme.

Achieving the SDGs is a pressing global concern, so it is crucial for a CBI project to incorporate improved production sustainability. Across the identified PMCs, this can happen, for instance, by stimulating the adoption of production processes that reduce environmental impact and support the creation of decent work opportunities. Key opportunities include supporting the use of environmentally friendly raw materials, such as organic cotton, BCI cotton and recycled fibres. SMEs directly involved in CBI programmes can receive training on ways to setting up their facilities (such as planning processes, payment structures, and management styles) to help ensure the creation of good jobs. A successful expansion of Egypt's textile industry would also create new job opportunities in the future.