MANUFACTURING: Factories shoot up as a lot of things start falling into place
By William Wallis, FT.com site
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Setcore's $50m state-of-the-art cotton spinning factory stands alone in an expanse of desert scrub outside the city of Alexandria on Egypt's Mediterranean coast. Within a year or so, however, it will be surrounded by one of the busiest construction sites in Egypt. Swiss, Italian, Turkish and Pakistani companies have all committed themselves to opening spinning, weaving and dyeing plants on the site. Three of them are Setcore clients, who plan to use its high-quality Egyptian yarn for fabrics that, until now, have been woven in Europe.

The speed with which the company has drawn others into an industrial cluster is testament to a new dynamic taking hold of Egypt's manufacturing sector. As operating costs rise in Europe and Turkey feels the pinch of competition from India and China, Egypt's potential as an industrial hub has suddenly come to life. Its labour costs are among the lowest in the Middle East, its energy – subsidised by the state – the cheapest and, unlike much of the rest of the region, it has abundant water from the Nile. In the past few years it has also entered into a slew of trade agreements that give it preferential access to Europe, the US and Turkey as well as other parts of Africa and the Middle East.

Meanwhile, for Egyptian manufacturers, a steep reduction in Customs tariffs in 2004, new hygiene regulations for food products entering the EU, and competition from Asian imports have made conforming to global standards a matter of survival. Intense pressure has focused minds, notably in a government preoccupied with creating employment for millions of jobless youth.

Until recently, the many family-owned small factories in the country got by in spite of the state, or went under partly because of it. Tamer Nassar, Setcore's vice chairman, says that while the new textile zone has been driven by private sector demand, by contrast with the past it has been facilitated at every step by a willing state. In response to an improving business climate, smaller Egyptian companies are in expansive mode.

Between July and September, annualised industrial growth, at 7.2 per cent, rose faster than overall growth in gross domestic product. The rise in non-oil exports has been averaging about 20 per cent, reaching 35 per cent in the last quarter, according to Rachid Mohamed Rachid, the trade and industry minister and a former Unilever executive. He says about 800 factory projects are in the pipeline. "A lot of things are falling into place as our companies orientate themselves towards exports," he says. "My biggest worry is that we are running ahead of capacity. There is more demand that we can cater for."

While most new factories are Egyptian-owned, foreign industry is following, with Turkish textile companies – encouraged by a free trade agreement signed with Egypt last year – at the forefront.

The devaluation of the pound and its managed float in 2004 has played a critical part in turning the tide. "Overnight we became competitive," says Tarek Tawfik, managing director of Farm Frites, a part Kuwaiti-owned company in food processing which, along with textiles, furniture-making and white goods, is among the fastest growing sectors with exports increasing tenfold to $700m since 2001.

As well as comparative advantages, however, Egypt also has a bureaucracy notorious for obduracy, a judiciary so backlogged it can take years to bring a case to court, and the remnants of a state-run import-substitution sector, which still creates distortions in some sectors.

Mr Tawfiq says that since businessmen and technocrats were appointed to a new cabinet in 2004 with a mandate to revive Egypt's economic fortunes, there has been a step-change in efforts to combat these. "There is a big difference between having a problem and addressing it and having a problem and not addressing it," he says.

Egypt's biggest challenge, says Mr Rachid, is to improve skills in management and raise productivity. To meet this, a new initiative, the National Supplier Development Programme tailors assistance aimed at improving the quality and cost of Egyptian-made inputs.

The sense of urgency in the government that is driving such initiatives has been inspired partly by a realisation that Egyptian industries risk missing out on their best opportunity to integrate into the world economy in the face of competition, notably from China.

"China is putting almost every country in the world under pressure," says Mr Rachid. "But in our case we are in a favourable position. We still have many elements that make us competitive. Egypt is one of the countries where they [the Chinese] can put their money. They see it as a platform to Europe because of our location and cost advantage. Turkish companies are already taking the plunge."

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