Revitalizing Egypt’s Economic Zones:
A Local Economic Development Model

by

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A Major Research Paper
presented to the University of Waterloo
in fulfilment of the
Major Research Paper requirement for the degree of
Master of Applied Environmental Studies
in
Local Economic Development

Waterloo, Ontario, Canada, 2015

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Author's Declaration

I hereby declare that I am the sole author of this research paper. This is a true copy of the research paper, including any required final revisions, as accepted by my examiners.

I understand that my research paper may be made electronically available to the public.
Abstract

Egypt’s post-revolution aftermath witnessed the hottest record in political instability, economic deterioration and social disruptions over the last six decades. A plethora of political and economic challenges are, thus, facing the country and its current administration. Reinventing a new political system and reviving the declining economy are daunting tasks that cannot be achieved without embracing a viable economic development strategy under a restored political stability. Given the scarce resources and diminishing revenues, myriad procedures are required to reform the economy as a whole. Applying the catalytic effect is, hence, recommended in restructuring economic policies within limited geographical spaces as experimental laboratories that, if deem successful, could be nationally implemented in different industries.

I, here, propose a local economic development (LED) model for revitalizing Egypt’s economic zones, with a special focus on the country’s historically renowned textile industry. Based on secondary data sources and using a bottom-up approach, the pilot project targets organic growth using the country’s existing assets while strengthening backward linkages to the local economy. The plan’s enactment is expected to foster economic diversification, growth and prosperity in the coming period and, subsequently, set the stage for implementing similar reform policies across other sectors on the national level.

The validity of the project is backed by its compliance with the World Bank’s LED definition, purpose and strategies. Additional support is illustrated through the vigorous economic policies and mega development projects, recently approved, on tight timelines that are underway in the country concerned. Their speedy approvals, fundraising and implementation are promising reform steps that, if accomplished, will drive Egypt’s economic engine and increase the confidence in the government’s effort in preparing the country for an enabled business environment and investment climate for local and foreign investments.
Acknowledgements

I would like to express my deepest appreciation to my advisor, Dr. Bessma Momani, for her encouragement and priceless time, knowledge and insightful recommendations throughout this model. Her extensive expertise in the region was invaluable in guiding my research. Dr. Momani’s accessibility and promptness of communication were unequivocal. You have been a tremendous support to me.

I would also like to thank my committee member, Dr. Paul Parker, who introduced me to local economic development strategies in theory and practice. His experience and passion for building local capacities, regional initiatives, green economy and sustainability concepts had lasting effects. Thank you for serving as my committee member.
Dedication

This model is lovingly dedicated to my parents, sister, husband and daughter. To my father, Adel Farid, who provided me with unconditional and moral support. Your words of encouragement ring in my ears. To the memory of my mother, Amira Fawzy, who taught me invaluable lessons in life. Your constant love has sustained me throughout my life. To my sister, Marwa, who is very special and has supported me throughout the process.

I also dedicate my work to my loving husband, Samy Emira, who has never left my side and helped me through the challenges of graduate school and life. A special feeling of gratitude to my wonderful daughter, Jannah, for being patient, compassionate and my best cheerleader. Both of you were always there for me throughout the entire master program. Without your help, this work would not have been possible.
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Chapter 1

Introduction

Egypt’s past three years unfolded the hottest political and economic issues on record over its last six decades. Since the 2011 Youth Revolution, the country has witnessed political instability, economic deterioration and social disruptions than ever before. A plethora of political and economic challenges are, thus, facing the country and its current administration. Reinventing a new political system and reviving the declining economy are daunting tasks that cannot be achieved without embracing a viable economic development strategy under a restored political stability.

A closer look at the economic policies adopted within the country compared to those applied in economically distressed ones worldwide -- during different periods of time -- shows that although economic zones have resulted in remarkable spillover as well as multiplier effects in some economies, including China, Ireland and India, among others, it is the less travelled road by Egypt’s policymakers and economic developers despite the fact that the country of focus has some successful examples, including the Qualifying Industrial Zones (QIZs), among its peers in the Middle East and North Africa (MENA) region and within the African continent as well. Building on previous scholars’ work, a comparative analysis, however, shows that the overall performance of the Egyptian zones is not yet prosperous enough, in terms of exports (Baissac, 2011, p. 52), to bring similar effects on the national economy compared to its global counterparts.

Based on the “catalytic effect” (Baissac, 2011; Johansson; 1994), outcomes could be reversed if restructuring policies and a strategic plan are set in place to enable a better investment climate, provide technological upgrades, develop human resource skills, and boost the country’s historical competitive advantage in various industries, just to name a few. However, given the scarce resources and diminishing revenues, myriad procedures are required to reform the economy as a whole. It is, thus, recommended that an action plan will be more effective if implemented within limited geographical spaces as an experimental method that, if deems successful, could be applied in different industries nationwide.
Realizing the gravity of the problem, I propose a local economic development model for revitalizing Egypt’s economic zones, with a special focus on the country’s historically renowned textile industry. The pilot project could act as a catalyst in fostering economic diversification, growth and prosperity in the coming period and, subsequently, set the stage for implementing similar reform policies across other sectors on the national level.

It is worth noting that most of the questions answered in this offer are neither about the political events nor social incidents – that took place during the 2011 revolution and its aftermath, they are rather proposed aids that can help fixing the economic downturn and budget deficit associated with the political upheaval since then. They are about an action plan that is designed to change course of the economic situation, away from the post-revolution reality. The plan is built on Egypt’s available assets, contains multiple practical and attainable steps to reduce the burden on the country’s budget, stimulate its textile industry, and prepare the country for world-class manufacturing with local capacities while building a resilient economy to resist the buffeting impacts of globalization, economic recessions, and other unanticipated shocks leading to sustainable development. The vision of this specific project is to position Egypt as a world trade hub in the textile industry – hoping that the desirable outcomes are attained and the venture is to be expanded to other industries and localities in the near future.

Although the present timing and complexity of the latest developments of the country concerned might raise more questions than answers, the details provided here bring to light evidenced facts – documented in foreign and local sources -- that maximizes the possibility of success and minimizes the chances of failure for this project. Capitalizing on the country’s assets, leveraging existing resources and improving areas of weakness are key factors in identifying the salient features of Egypt’s political economy and central to crafting its feasible strategies. To that end, the objectives of this study are to respond to questions, like what are economic zones? How are they related to economic development? Can they catalyze economic reform on local and national levels for the country and industry of focus? What means can be used to that end? And what are the building blocks that lay the groundwork for the success of the proposed model?
In pursuing answers to those questions, the paper proceeds as follows. The second section will provide the data and methods employed. The information and statistics used in this research are based on secondary data sources that include international economic and political organizations, the Egyptian government, domestic and foreign publications, and previous research done by scholars and industry experts from multiple disciplines. The model uses a bottom-up, participatory development, approach to involve all stakeholders, encourage civic engagement and blur public-private boundaries that, ultimately, promote good governance at the grassroots and community-based organisations. The gathered information will help in creating databanks for identifying specific key assets to the localities and providing tailored recommendations for existing challenges, which will be voiced to the Egyptian authorities. The latter’s role is to integrate such information into its trickle-down policies to achieve the desired results of this project. Details about the approach are explained in its respective part in the research. The third section delivers the literature review of economic zones including the definition used for the purpose of this paper, their contribution to economic development and reform as well as their limitations. The fourth part will focus on African economic zones as well as those in the MENA region while highlighting some of Egypt’s successful zone programs, among others in the aforementioned locations, within a broader context. The fifth unit will provide a political and economic overview of the country concerned while emphasizing on its strategic geographical location. It will also present information about the Egyptian government and the republic’s rank on the human development and corruption perception indices followed by its macroeconomic indicators, major trading categories and partners. The following division will elaborate on the persisting challenges that face the nation referring to labour market constraints, lack of human resource skills, the negative impacts of globalization and trade liberalization and the insubstantial spin-offs from foreign direct investments into the country of focus. The seventh section will shift gear towards Egypt’s current situational and SWOT analyses. While the macro environmental scan expounds the country’s multiple assets including the signed preferential trade agreements with a special emphasis on the Qualifying Industrial Zones’ protocol and, particularly, the success of their existing textile clusters, the micro environmental scan focuses on the details of the Egyptian textile industry, its global position, revealed comparative advantage and emerging organic trends. Tourism, history and culture,
as parts of the country’s assets and main contributors to its quality of life, are additionally discussed in this section. The SWOT analysis will, however, only focus on the industry concerned. In the eighth part, the proposed local economic development model of revitalizing Egypt’s economic zones will be revealed and a fully-fledged, step-by-step process is discussed. After touching on the bottom-up, participatory development, approach used and briefly recollecting the dynamic power of combining both zones’ and clusters’ features, the model objectives are explained, the proposed new zones’ locations for this project are illustrated followed by a compelling value proposition to be offered by the zones for investment attraction, among its organization structure, suggested funding models, marketing strategy, key performance indicators, and the recommended timeline as well as deliverables. Besides, in this part, the model’s expected outcomes, including the anticipated spillover effects, sustainability, and economic resilience, will be deliberated on. Section nine will assess the proposed model’s compliance with the World Bank’s local economic development (LED) definition, purpose, strategy, approaches and structure. The comparison will be tabulated to clearly identify the validity of the proposed model. The congruence between the World Bank’s mechanisms versus the corresponding ones in the action plan, suggested in the designed pilot project, indicates the strength of the model and its potential success in revitalizing Egypt’s economic zones. As recommendations are provided within their respective parts across this document, the last section will conclude by wrapping up the multiple strands of this model while emphasizing on the importance of capitalizing on the country’s existing assets, leveraging its resources, building new capacities and improving areas of weakness while keeping the fast-paced, rigorous economic reform policies in order to increase the public’s confidence in the country’s potentials, foreseeable growth and current administration to help promote a prosperous and safe Egypt.
Chapter 2

Data and Methods

This research is based on, secondary, triangulated data gathered form qualitative and quantitative approaches to provide cross validation and avoid intrinsic biases resulting from relying on single-based methods or sources. The data is grounded in best practices from the current literature on economic zones across the globe, yet those particularly applied in Africa, MENA and Egypt. The cogency of the data collected and presented here is derived from its multiple, credible local and international sources that provides a mechanism that reflects, to a far extent, a consensus on the priority of topics relevant to economic zones’ feats and failures, in their respective regions, while providing broader discussions on the recommended approaches and cornerstones to be applied for either extending currently fruitful zone programs, avoiding others’ pitfalls or creating new ones.

The information and statistics presented in this document are generated from extensive research done by local and international sources using quantitative, empirical methods as well as qualitative techniques, like interviews and surveys, conducted by academics, multinational consulting firms, ministries, educational institutions and research centers with international investors and cluster-based firms, among others. A supplementary research on the history, rankings, foreign direct investment (FDI) and QIZs’ regulations and relevant policy issues among macroeconomic indicators, trade statistics, revealed comparative advantage of the Egyptian textile industry along with analyses of other assets that act as compelling factors of success and inputs for this model is provided. Crafting the model and providing its detailed steps and strategies using the bottom-up approach, finding the missing links and connecting the dots are developed as the output of the compiled data. The creativity in the proposed model, therefore, lies in its unique approach, the suggested locations of the new zones, identifying individual, community, cluster, and zone assets, and recommending corrective actions for points of weakness on the local and national levels. The comprehensive tactics that match world-class zone structures, marketing and funding strategies, among others, while creating backward linkages to the local economy are original to the country and industry of focus. The use of all aforementioned factors collectively
among other drivers, the avoidance of other drawbacks, addressing leading as well lagging behind policies and practices in a comprehensive effort to formulate a feasible strategy for revitalizing Egypt’s economic zones are, thus, quite exceptional.

Statistics and other data are collected from well-reputed Egyptian and international sources, like the ALEXBANK, American Embassy in Amman, American Chamber of Commerce (AmCham) in Egypt, National Bureau of Economic Research (NBER), Congressional Research Service (CRS) of the Library of Congress, the World Factbook of the Central Intelligence Agency (CIA), Egyptian Center for Economic Studies (ECES), Egyptian National Railways (ENR), Euromonitor International, the Federal Register, General Authority for Investment (GAFI), the Industrial Modernisation Centre (IMC), Industry Canada, International Trade Centre (ITC), Economic Research Forum (ERF), Peterson Institute for International Economics (PIIE), Multi-Donor Investment Climate Advisory Service (FIAS), the World Bank, Institute for International Economics (IIE), United Nations Development Programme (UNDP), Maritime Transport Sector (MTS), Ministry of Civil Aviation, Ministry of Communications and Information Technology (MCIT), New & Renewable Energy Authority (NREA), New Zealand Social Infrastructure Fund (NZSIF), Organization for Economic Cooperation and Development (OECD), Observatory of Economic Complexity, Office of the United States Trade Representative (USTR), Organic Trade Association (OTA), European Sustainable Development Network (ESDN), International Cluster Competitiveness Project of the Institute for Strategy and Competitiveness, PricewaterhouseCoopers (PwC), Qualifying Industrial Zones Unit at the Ministry of Trade and Industry (MTI), Industrial Performance Center (IPC) of Massachusetts Institute of Technology (MIT), United Nations Conference on Trade and Development (UNCTAD), The United Nations Centre on Transnational Corporations (UNCTC), the World Economic Forum (WEF), Southern African Development Community (SADC), Center for Global Development (CGDEV), State Information Service (SIS), Transparency International, UK Trade & Investment, United Nations’ Economic and Social Commission for Western Asia (ESCWA), United States Department of Agriculture (USDA), Washington State Department of Transportation (WSDOT), and the World Trade
Organization (WTO) among multiple academic sources, news agencies, magazines, newspapers, and other online publications.

In addition to the above sources, my practical experience with Canadian and American development agencies, American diplomatic mission and various U.S. government departments, the Egyptian government along with other international organizations, research centres and educational institutions besides my current practice in international trade and development provide me the privilege of being a part of international business and economic tours, events, site visits, missions, reports, research, and projects’ implementation across different portfolios including, but not limited to, trade, transportation, tourism, investment attraction, trade promotion, business and economic development and sustainability, which have largely contributed to spotting the missing links in the local market and identifying potential solutions from the global one. In other words, brain circulation has played a major role in helping me in designing the proposed model.
Chapter 3
Economic Zones: The Literature

Economic zones (EZs) have various types, sizes, functions, and, accordingly definitions that differ among countries. Those zone forms\(^1\) exist decades ago (FIAS, 2008, p. 9); however, and in order to avoid the diversion into detailed descriptions of such zones that might encounter some challenges due to a particular zone name, format or definition, in this research I will use the generic term, economic zones, interchangeably with any specific type of zone -- that will be subsumed under this term -- eschewing specificities that might change during the implementation phase of the proposed model based on the Egyptian authorities in charge then.

3.1 Defining Economic Zones

It, thus, deems appropriate to include two definitions of -- what I coin as EZs or -- special economic zones (SEZs) as the general term used in multiple sources. The first definition provides a broader description of the zones on the national level and how different their rules are from areas outside them while the second focuses on the zones as localities and their administrative strategy in facilitating business transactions for its occupants. Baissac (2011) characterizes the zones as:

Demarcated geographic areas contained within a country’s national boundaries where the rules of business are different from those that prevail in the national territory. These differential rules principally deal with investment conditions, international trade and customs, taxation, and the regulatory environment; whereby the zone is given a business environment that is intended to be more liberal from a policy perspective and more effective from an administrative perspective than that of the national territory. (p. 23)

\(^1\) FIAS (2008) provides a list of zone types included under its SEZs’ definition. Those zones vary in their development objectives, functionalities, facilities, industrial activity, location, territorial limit, market, and size. They include free trade zones, export processing -- counting hybrid and single factory -- zones, freeports, enterprise zones, and specialized zones (pp. 3-12).
While FIAS (2008) states:

SEZs are generally defined as geographically delimited areas administered by a single body, offering certain incentives (generally duty-free importing and streamlined customs procedures, for instance) to businesses which physically locate within the zone. (p. 2)

From the above definitions, it is obvious that both – though partially overlap -- complement each other while illustrating how EZs are positioned both nationally and locally. They also indicate how economic zones have flexible features and a wide spectrum of development options that fit many, if not all, needs and provide room for economic growth – if, under a healthy political structure, the appropriate policies are set, implemented, measured and adjusted for individual cases based on the policy objectives of such tools for industrial development that should feature economic salience and face political challenges.

3.2 Contribution to Economic Development and Reform

In this section, I will discuss how economic zones can contribute to economic reform and development. Nevertheless, and before moving forward, it is of critical importance to emphasize the fact that economic zones cannot substitute economic reform policies in any country, but they would rather complement a broader strategy that is pre-set and designed on the national level. As they act as catalysts in boosting an economy, they are not, by any means, meant to create a hinterland away from the comprehensive objectives of the state. The zones should be used as simple tools that could generate indispensable outcomes if used in increasing exports, creating job opportunities, foreign exchange revenue (Baissac, 2011; Cling & Letilly, 2001; Farole, 2011; FIAS, 2008; Johansson, 1994; Schrank, 2001; UNCTC, 1990; Warr, 1989), attracting foreign direct investments, among many goals that should contribute to the overarching economic development efforts adopted nationwide. Nonetheless, facilitating doing business and regulatory procedures, streamlining customs and legal frameworks with other processes and allowing for a range of flexible approaches, structures and activities (FIAS, 2008, p. 5) are fundamental in achieving the aforementioned targets, maximizing the zones’ successes and anticipating growth trajectories.
In the following subsections, I will address some of the major EZs contributions to economic development while the following part will highlight some successful examples of the Egypt’s EZs among others in Africa and the MENA region.

**Promoting and diversifying exports**

The existing literature on economic zones is tainted by mixed opinions about the role the zones play: Do they drive a country’s economic growth or reduce its economic prosperity? The muddled thinking is caused by the shades of success of the zones that vary, worldwide, across the full spectrum of economic zones in strength and direction. Beside their erratic performance, some of their benefits have been too complex to measure or ignored in analyzing their impact on the host economy, which contributed to such confusion among authors and resulted in diversified opinions (Cling & Letilly, 2001; Johansson, 1994). However, the zones expansion, particularly in the Third World and Eastern Europe, show that they have positive impact on economic development (Johansson, 1994, p. 393). EZs in some countries, like Korea, Malaysia, Sri Lanka, China and Indonesia, have recorded exceptional static as well as dynamic returns and have additionally outperformed their estimated opportunity costs (FIAS, 2008; Jayanthakumaran, 2003).

Privileges provided to businesses that choose an economic zone for their operations are countless. Some examples include duty exemption, deferral and reduction, inventory tax elimination, indefinite storage (Stambrook, 2009, pp. 5-6), corporate tax holidays or other forms of tax abatements (Cling & Letilly, 2001; FIAS, 2008; Warr, 1989), just to name a few, thus, serving the core concept of promoting as well as diversifying a country’s exports, which, itself, is an effective – yet not inclusive -- target that backs a wider economic reform scheme (Cling & Letilly, 2001; FIAS, 2008; Madani, 1999), like the cases of Taiwan (China), Korea (FIAS, 2008, p. 12) and Mauritius (Baissac, 2011, p. 27). Additionally, EZs have a significant impact on reducing anti-export bias -- a preferred practice to stimulate economic growth (Baissac, 2011; Farole & Akinci, 2011; FIAS, 2008; Tyler, 1983) -- which arouses from the discrimination between the export incentives provided for zone occupiers versus export protection policies (Tyler, 1983, p. 97). A balanced integration between export incentives and protective measures is a desired strategy – unless otherwise needed according to individual market cases and conditions (FIAS, 2008; Tyler, 1983).
Attracting foreign direct investment

Although Johansson (1994) explained that developing countries face many constraints, like poor infrastructure, weak institutional frameworks and lack of doing business expertise that hamper their export promotion activities and consequently give them a competitive disadvantage (p. 390), it is argued that these limitations could be offset by attracting foreign investors into the country (Jayanthakumaran, 2003; Johansson, 1994). The proposed solution is, however, debatable from my point of view. I contend that the suggested point should be re-examined particularly under economic recessions, like the global financial crisis whose adverse effects have been witnessed since 2008, and the ongoing bidding war among countries and, even, regions as well as cities within the same country to entice and retain FDI by providing highly competitive incentives whose outcomes should be carefully questioned whether they play out as positive or zero-sum-game. It is needless to say that if the ensuing results are negative-sum, then they should be immediately eliminated from the economic framework under implementation. This argument is reinforced by the cost-benefit analysis’ supporters, who focused on examining the return of FDI in EZs and pinpointed that the costly expenditures of investment incentive packages provided to foreign companies (despite their footloose nature) in addition to those of the infrastructure (though do not reduce the country’s welfare) limit the gains from EZs in the host economy (Cling & Letilly, 2001; FIAS, 2008; Johansson, 1994; Warr 1989). UNCTC (1990) additionally validates this debate by explaining that one of the important developments of EZs is the evolution of local enterprises, whether fully or partially (i.e., in the form of joint ventures) owned by the host country’s nationals, in the zones. India, for instance, is one of the countries that coerces domestic firms to have a minimum participation – in either of the above forms -- within the zones. Such emphasis is based on two folds: fulfilling an economic need to act as a substitute for foreign companies and avoiding the political pressure of local firms that are denied the access of the same economic advantages given to foreign firms located inside the zones (p. 2). That said, I would rather build on Porter’s (1998) assertion that “the enduring competitive advantages in a global economy lie increasingly in local things” (p. 77) which is explained in his Diamond Model and its attributing factors that will be applied on Egypt’s textile clusters and its competitive advantage in a later section. Simply put, building on
existing assets helps organic and evolutionary growth that leads to a productive and resilient economy.

**Boosting growth in distressed areas and economies**

Economically distressed areas are rural or urban parts of a country whose, defined percentage of their, populations fall short of meeting the minimum level of the national per capita income, unemployment record exceeds a demarcated proportion compared to that of the maximum national level, or have a special need – due to natural catastrophes (like floods, hurricanes) or unnatural emergencies (such as business closures, terrorist attacks) – that affect their economic performance and require their governments’ economic aid to address the challenges and overcome their consequences. The above was listed in bullets by the Washington State Department of Transportation (2009) based on the federal definition of economically distressed areas:

The federal definition of “economically distressed,” is based on a county [locality] having:
- per capita income of 80 percent or less than the national average;
- an unemployment rate one percent greater than the national average for the past 24 months; or
- unemployment or economic adjustment problems, “special need” as determined by the Secretary of Commerce.

That given, EZs could be a critical tool in revitalizing economically distressed areas through government assistance programs that aim to boost disadvantaged localities and achieve growth. In doing so, the zones are provided with financial grants and other economic aid forms, including tax abatements, which help in enhancing trade expertise, activities and, accordingly, contribute to reviving the area.
Catalyzing national economic reform

➢ Tentative Application of Newly Crafted Economic Policies and Approaches

In many countries which face either political, economic or both challenges – like Egypt, which is mostly associated with limited budgets, if any – policymakers might seek an economic reform strategy that could be implemented on a smaller scale in order to test its viability and then use it on a broader national scale. In using this method, governments, like China’s, test different doing business strategies such as legal, financial, investment incentives, labor, openness to new rules and markets, among others, in order to experiment their effects on a locality, like an EZ, before extending them to the national economy (Cling & Letilly, 2001; FIAS, 2008; Johansson, 1994; UNCTC, 1990; Wall, 1993). The objective of using such approach is to garner the catalytic effects that localities could -- in a shorter term, yet if properly implemented -- bring to the zones in particular and the whole economy in general to spur economic growth.

➢ Growth Poles

Besides, an EZ can act as a “growth pole,” like the Shannon Free Zone2 in Southern Ireland whose multiplier effect, which is conducive to economic recovery and propels growth, on the economy is renowned worldwide (FIAS, 2008, p. 11). Deitrick (2010) defined what growth poles are, their economic role in development strategies and potential impact in developing countries as follows:

Growth poles refer to a grouping of firms or an industry that generates expansion in an economy. Economic growth from a lead or propulsive firm or industry induces growth in other firms or sectors of an economy through agglomeration—or positive external—economies. Growth poles are at once a theory of development and a regional development strategy or policy application. As many in the development planning literature have noted, the origin of the growth pole had little to do with geography per se and certainly not with regional development. Nonetheless, growth poles— and its

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2 Economic zones that target revitalizing distressed urban areas are also called “Urban Free Zone” in France, Enterprise Zones” in the United Kingdom and “Empowerment Zones” in the United States (FIAS, 2008, p. 30).
related term, growth centers—played a major role in regional development policies in the 1950s and 1960s. Across developing countries, growth poles or growth centers were targeted as places to concentrate public investment to promote development and spread it to outlying areas.

Though debatable, establishing EZs that aim to act as growth poles in their respective countries – mostly developed as noted by FIAS (2008, p. 11) – might have no geographical concentration as stated above. Additionally, they might be used, by developing countries, to attract domestic investments, induce growth and development in the chosen locality as well as other remote areas Deitrick (2010), which will be highlighted later in the proposed model.

➢ Global Change in Trade Agreements, Patterns and Order

Other element should be considered under this approach, namely using EZs as a catalyst for structural transformation within a holistic economic reform policy, is the dynamism of the World Trade Organization and international trade agreements as well as their impacts and implications that have taken place in the world trade matrix (Baissac, 2011; Cling & Letilly, 2001). On one hand, the WTO’s arrangements in respect to subsidies, countervailing and anti-dumping procedures segregate between rich and poor countries as reflected in their biased terms that act in favour of the former while impairing the latter (Gwynne; 2008; Rodrik, 2008) as they allow developed countries to levy tariff barriers, for instance, on developing ones. Those tariffs imposed on the latter’s products could almost reach double those imposed on the former’s. On the other hand, non-tariff barriers (NTBs), like agricultural subsidies, provided by advanced economies, act as an obstacle to international exporters – especially in developing countries -- from accessing (Goldin, 2006, p. 205) and competing in those markets. Not only do tariff and non-tariff barriers affect international trade, but also bilateral and regional trade agreements pressure developing nations to open their markets in return for “crumbs.” For example, in May 2000, the African Growth and Opportunity Act allowed access to the U.S. market for African apparel manufacturers provided that they use American-produced yarns and fabric (Rodrik, 2008, p. 464), which decreases the African producers’ bottom line due to their preference to use imported inputs (FIAS, 2008, p. 37) that usually requires costly and lengthy procedures to meet such
obligation. Another excellent and relevant example to Egypt’s case -- that particularly addresses its textile industry -- is the end of the Multifiber Agreement (MFA) and its insinuations (Baissac, 2011; Cling & Letilly, 2001; Farole, 2011) on the country’s economic and political strategies that resulted in signing the Qualifying Industrial Zones protocol in 2004. The agreement, signed between Egypt and Israel, allows Egypt to export quota- and-duty-free textiles and readymade garments to the U.S. only if the Israeli constituent reaches a minimum of 11.7% (Bolle, Prados, & Sharp, 2006) that was later reduced to 10.5% (QIZ Egypt, n.d.a). Similar to the case of African manufacturers mentioned earlier, the costs of such conditions largely impact the profit margins of producers and ultimately affect the economic gains of the country.

From the aforementioned, it is understood that such changes cannot be ignored as they have significantly altered, not only, the geoeconomic, but also -- in some instances, the geopolitical equations of various countries including developing as well as emerging ones and, on top of all, the country concerned, i.e., Egypt. A succeeding consequence is a shift in the global trading order and its related effects on trade patterns, investment and production, which should be prudently considered and planned for whereas using the zones as a catalyst for organic growth and while integrating with -- though with minimum reliance on -- the extremely dynamic, and mostly inequitable global system as previously explained.

It is, therefore, clear that the success of economic zones in any state does not only count on the appropriate policies -- which if put in place, will have a mechanical effect that effectively operates the zones, but heavily counts on several crucial factors as well as the soundness of the economic structure and political economy of the adopting nation to such progressive development tools and strategies as highlighted in the following subsection.

➢ The Political Economy of Economic Zones

As the aforementioned sections shed light on some economic outcomes, direct effects of economic zones and their normative implications, like promoting exports, attracting FDI, creating backward and forward linkages in the host economy, entering new markets, among others, as well as some catalytic benefits, such as knowledge and technology transfer, learning-by-doing, and doing business techniques, the strategy of using the zones as
experimental laboratories for new economic policies require a political system that is willing, ready and able to change.

Economic reform and structural change are sensitive and political in nature as the status quo is mostly preferred by a country’s elites, especially those with deep pockets. Thus, economic zones, -- being isolated and limited localities -- as enclaves, provide a catalytic privilege in transforming the economy from a distorted structure that lacks dynamism to a robust one that drives growth and development (Farole & Akinci, 2011, p. 15). In order to do so, EZs should have an advanced institutional framework to support and promote the zones’ regulatory authority. Weak institutions and inadequate regulations will undoubtedly lead to the failure or, at their best, poor performance of the zones. Hence, central to the success of the zones is the soundness of the institutional instruments, and on top of which is the regulatory body whose core activity is to exercise regulatory and supervisory roles that balance between an autonomous, yet, inclusive power. The zones’ administration should have the necessary quality and capacity to operate them, coordinate among stakeholders as well as plan and execute the pre-designed mandates. Such characteristics are essential and form the momentum behind the success of the regulatory body which “often make or break a zone program” (Farole, 2011, p. 182).

EZs’ regulatory bodies have ranged between government authorities or corporations (such as those in Jordan, Bangladesh and Thailand), departments in ministries – for instance, the ministry of trade and industry -- (like Taiwan, China, El Salvador and Honduras), zone-specific management boards (similar to Turkey, India and Vietnam) and investment promotion agencies (as the cases of Ireland, Uganda and Sri Lanka). The best practice, however, is to have the zones’ regulatory authority in the form of an independent agency that operates under a board of directors (composed of public and private sector affiliates) who can act independently from the political regime. The board of directors should be well-connected to the highest government level, like the country’s president or prime minister, to guarantee its ability and accessibility to full and independent authority as well as impeccably coordinate among all ministries or public authorities involved. Nevertheless, to ensure a seamless and fruitful administrative process to the zones, a delegated authority is required.
from the highest government level on board -- which if does not exist, causes delayed decisions and activities by the zones’ regulatory body (Farole, 2011, pp. 183-184).

Given the above, it is obvious that a strong institutional and regulatory framework is a key factor behind creating a conducive investment climate, an enabled business environment and a healthy competition for policymakers and governments, which ultimately spur economic growth and political reform from the inside out.

**Employment creation and human resource development**

- Contribution of Zones’ Employment to the Global and National Workforce

EZs’ function of generating job opportunities – though varies from one country to the other – is undeniable in all aspects, yet other related, adverse, issues arouse that need to be addressed with more caution and planning from policymakers and zone administrations. It is important to note that, worldwide, EZs’ labour force, account for less than 1% of the global workforce with the exception of the Americas and the MENA region, which have exceeded the above percentage (see Figure 1). In spite of their perceived role as job creators, EZs have

**Figure 1: Direct Employment Impact of Economic Zones**

![Figure 1: Direct Employment Impact of Economic Zones](image)

Source: FIAS, 2008
insignificant impact on direct employment\(^3\) in most countries; nevertheless, their impact on indirect employment\(^4\) has been remarkable. The ratio of indirect to direct employment ranges between 0.25 percent in Mauritius and up to 2 percent in Honduras (Cling & Letilly, 2001; FIAS, 2008) while a moderate percentage (0.7) is attained by Madagascar (FIAS, 2008, p. 34). It has also been noticed that increased employment rates are prominent in particular countries (Cling & Letilly, 2001; FIAS, 2008), like the Dominican Republic and the Philippines, versus others. Additionally, an upward-sloping relationship between nations whose populations are less than five million and, even smaller localities, employment rate is witnessed in countries like Mauritius, Seychelles, and Jamaica, in the former case, and Mexico’s maquiladora zone, in the latter (FIAS, 2008, pp. 34-35). Despite the fact that the percentage of labour inside the zones to the total employment rate outside them varies tremendously from one country to the other, there is a positive correlation between the percentage of unemployment at the national level and the local labour employed at the zones (Cling & Letilly, 2001; FIAS, 2008). Meaning, the higher the unemployment and underemployment rates are on the national level, the more significant the role of the zones is in decreasing them by hiring more labour inside the zones. On one hand, in MENA, Tunisia’s zones employ 8% of the total domestic workforce while the United Arab Emirates’ almost tripled that of Tunisia’s, reaching 25% of the country’s total labour force, which indicates how variable the employment effect of the zones is in different states (FIAS, 2008, p. 35). On the other hand, the Dominican Republic’s unemployment rate reached almost 20% in the 1970s when its economic zones employed 504, which increased to 85,468 then to 164,634 in 1988 and 1996 respectively. A phenomenal example is the case of Mauritius (Cling & Letilly, 2001; Madani, 1999) whose unemployment rate fell by more than 11%, from 14% to less than 3%, from 1985 to 1989. Thanks to the zones’ impact on the island’s employment level (Madani, 1999, p. 35). Such great effect of the economic zones on employment rates – illustrated in the last two examples, and particularly in developing

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\(^3\) Direct labour is defined by BusinessDictionary.com (n.d.) as “employees or workers who are directly involved in the production of goods or services.” Retrieved from http://www.businessdictionary.com/definition/direct-labor.html#ixzz2ymkW7XOJ

\(^4\) Indirect labour is defined by BusinessDictionary.com (n.d.) as “employees or workers (such as accountants, supervisors, security guards) who do not directly produce goods or services, but who make their production possible or more efficient.” Retrieved from http://www.businessdictionary.com/definition/indirect-labor.html#ixzz2ynWJR75s
countries characterized by high unemployment rates – though does not always hold true, is crucial. Madani summarized the alternative employment status of workers in such countries without the zones’ employment effect by saying, “for workers, the alternative to EPZ [EZ] employment is often unemployment, underemployment or return to village subsistence life” (FIAS, 2008; Madani, 1999).

➢ Human Capital Accumulation

Human resource development, skills upgrading and acquiring new ones are major assets for growth and prosperity in any country. In economic zones where foreign as well as local investors operate to meet the export markets’ demand and requirements indicate that products exported from the zones have to be of world-class standards and quality. Thus, workers employed at the zones are provided the privilege of acquiring higher level of skills to meet the sophisticated product requirements versus the less advanced ones of traditional outputs. Learning-by-doing and on-the-job training are the drivers behind the shift in skill development of the workforce inside the zones. Even though studying this dynamic effect and positive externality of EZs was previously disregarded, the endogenous growth theory buttressed the significance of human resource development that takes place within the zones and drew upon its role on economic growth and the host country’s welfare (Cling & Letilly, 2001; Jayanthakumaran, 2003; Johansson, 1994).

➢ Impact of Labour Shift to Capital-Intensive Products on Comparative Advantage

One of the major targets for establishing new economic zones or restructuring existing ones is to create job opportunities in the host country – that is assumed to be labour-abundant. However, the neoclassical approach argues that EZs have negative impact on the host economy’s comparative advantage. Advocates’ pessimism is based on the assumption that as EZs attract foreign companies whose imported capital attracts domestic labour who then shifts their production from labour-intensive to capital-intensive products; accordingly, the manufacturing of goods in which the country has a comparative advantage is discouraged (Cling & Letilly, 2001; Hamada, 1974; Johansson, 1994; Madani, 1999). Thus, EZs impact will distort rather than restore the economic balance in favor of the host economy resulting in an increased volatility and a reduced welfare. This implicitly means that FDI (ultimately a
goal behind the establishment of EZs) is key to the departure from another objective, namely creating employment in the country’s labour-intensive, competitive industry, which needs consideration from policy leaders in order to avoid such undesirable consequence.

- Employment as a Pressure Valve

From another perspective, EZs dominated by foreign companies might act as “pressure valves” to reduce escalating unemployment. Nonetheless, in this case, FDI creates foreign enclaves without boosting economic linkages to the host economy, hence, accomplishing one target, i.e., employment creation, while forsaking the other, i.e., backward and forward linkages with the domestic market. Though contested, such countries, driven by their focus on job creation, might deviate their attention from going through the tedious and costly process of national reform and structural change (FIAS, 2008; Madani, 1999), thus, discounting an instrumental economic benefit of establishing new or revitalizing existing zones. A result that governments should be aware of and plan to avoid in order to attain the expected employment benefits from their EZs.

*Dynamic economic benefits*

- Backward and Forward Linkages

The aforementioned, sought-after, economic achievements of EZs are characterized by Farole and Akinci (2011) as “static” gains that, if used effectively, could be transformed into “dynamic” ones. If the creation of new zones or restructuring current ones is planned to be an integral part of a country’s national economic reform policy, not only will the zones increase and diversify exports, decrease unemployment, generate government revenues, surge a nation’s foreign exchange earnings, and attract foreign investments (Cling & Letilly, 2001; FIAS, 2008, p. 32) – among many others, but also they will increase the transactions between the local economy and zones’ investors. Blurring the boundaries between the zones, as fenced and isolated enclaves, and the domestic economy – supported by the necessary policies inside as well as outside the zones -- allows for smooth and ongoing exchange of skilled labor, entrepreneurs, doing business techniques (Farole & Akinci, 2011; Cling & Letilly, 2001; UNCTC, 1990), promoting industry clusters -- which then allow for
constructing links among cluster firms, reinforcing regional value chains and public-private institutions, as well as knowledge and technology transfer (Farole & Akinci, 2011; Cling & Letilly, 2001) while attracting more local businesses and establishing strong backward and forward linkages within the economy as a whole. Such dynamism creates a range of economic advantages that consequently lead to upgrading skills, diversifying economic activities, and accessing new markets (Farole & Akinci, 2011, pp.13-14), creating indirect and female employment, regional development (Cling & Letilly, 2001; FIAS, 2008; UNCTC, 1990), demonstration effect (FIAS, 2008, p. 32), achieving high performance practices, identifying effective approaches to enhance productivity, and increasing competitiveness – among others, thus, improving the local-continuum in cross-national and, ultimately, regional and global contexts. FIAS (2008) added that the effect of the dynamic benefits are amplified in low-income economies where the scarcity of employment opportunities, foreign currency and government revenue generators, increases (p. 32).

Trade Restrictions and International Labour Standards

Though dynamic advantages are hard to gauge, they are salient contributors to the success of the zones and their development in the long-run (FIAS, 2008, p. 32). Designing the appropriate regulations and eliminating trade restrictions is one way that, ultimately, helps promote economic growth. Allowing equal access of high quality products, produced within the zones, both domestically and internationally is an example of removing such constraints. The eradication of trade restrictions does not, however, act as the sole factor that help in increasing the zones’ dynamic benefits. Other essential elements that require a set of polices to be in place include labour rights that should meet the International Labour Organization (ILO) standards, minimum working conditions (like place, health and safety) should be satisfied, and females’ inclusion in the zones’ employment as well as their fair pay should be equally emphasized. In efforts to ensure that the above criteria, among others, is provided to zones’ employees, the general secretary of the Malaysian trade union federation (as cited in Cling & Letilly, 2001) expressed his support to include a social clause in the WTO agreements that urges for the alignment of WTO and ILO in this regard by stating
If world trade through the WTO is to achieve an improvement in the living standards of working people around the world, particularly in developing countries (rather than an increase in exploitation of workers by authoritarian governments, especially in export processing zones), it is more urgent than ever for the respect of core labour standards to be incorporated in the international trading system. (p. 28)

➢ Environmental Challenges and Controls

Additionally, the laxity of environmental controls within the zones should be met with stringent policies to avoid negative externalities and their associated costs. Even though setting and implementing environmental measures are expected to be challenging for governments that use them as a tool to attract FDI, they should, at least, set the necessary procedures – following international standards – to be implemented within a reasonable time frame that suits their development pace and capabilities. In doing so, higher, yet comprehensive, gains could be garnered based on leveraging static benefits that accelerate a country’s economic growth and, eventually, development.

3.3 Limitations

Isolated enclaves

Even though economic zones can play dynamic and effective roles in promoting economic policies that target national reform, their disadvantage of creating “isolated free market enclaves” (AmEmbassy Amman, 2007) that impede nationwide reforms and trade liberalization is possible if precautionary measures are not taken (AmEmbassy Amman, 2007; FIAS, 2008; Sauvant, Jovanovic, & Zaitsev, 1991; Schrank, 2001) with respect to planning, services’ availability, location choices, proximity to essential amenities, policies and objectives. FIAS (2008) provided some examples of EZs that turned into enclaves including Kandla zones in India (remotely located and had no accessibility to all amenities), Bataan in the Philippines (deprived from the necessary infrastructure to connect with the country’s capital, Manila), Masan in Korea (restricted to FDI), and Moin in Costa Rica (distantly located without the supporting amenities and infrastructure) (p. 14). The ensuing result is either being isolated from major markets and trade routes due to their poorly
planned, underserved locations and lack of infrastructure or having idle capacities due to the highly associated costs needed to overcome their development deficiencies.

**Excluding import-processing functions and smuggling**

Smuggling commodities from the zones to the domestic market of the host country is another issue of concern to policymakers and zones’ management; nevertheless, this particular point could be avoided if the zones’ functions are directed towards import-processing along with export-processing operations, like the case of the Irish Shannon Export Free Zone (Johansson, 1994; UNCTC, 1990), the Manaus Free Zone in Brazil whose production became dedicated – though unintentionally planned at the time of its inception – to the domestic market as well as China which realized that the local markets (whether large or small) act as an unconventional, yet a more attractive, incentive to foreign companies of different scales (UNCTC, 1990, pp. 1-2).

Another challenge is the local consumers’ desire to access the superior quality of products manufactured inside the zones. Though this seems a pressure on the host country’s executives – if merely targeting increasing exports as the raison d’être of forming the zones (Sauvant et al., 1991; UNCTC, 1990), it could be turned into an opportunity for raising the domestic consumers’ tastes and preferences that accordingly turn them to prosumers who, then, can make informed decisions on their purchases. As a result they will act as a pressure valve on domestic producers to raise the bar of their production quality to meet that produced at the zones, thus, creating a competitive environment to be at par with that of a developed economy.

**FDI giveaways**

A related-risk to the previous one is that EZs, particularly in developing countries, could be designed to attract international investors in order to produce export-oriented, mostly light manufacturing products, within the zones, hence, blocking local producers for being exposed to the global market which in turn deprives them from lucrative opportunities and keeps them away from the competition arena (Schrank, 2001, p. 223). Not only that, but also an associated cost in respect to attracting transnational companies (TNCs) is the alluring incentives, like corporate tax holidays or reductions – considered as “giveaways,” provided
by host countries that most, if not all, of the times outweigh the gains from companies locating in the zones. Although such “low road” strategy (Cling & Letilly, 2001, p. 24) encapsulates appealing packages to footloose TNCs, that mainly focus on assembly operations rather than place-bound ones that promote industrial activities (Cling & Letilly, 2001; FIAS, 2008), FDI proponents argue that most industries are not rent-seeking and that EZs attract high-tech, high-skill investments that contribute to upgrading labour skills in the host economy (FIAS, 2008, pp. 33, 38).

**Unequal-footing policies and the forgone gains**

Implementing unequal-footing policies among companies, whether domestic or foreign, located inside and outside the zones leads to unproductive, low-value added activities -- as they mostly rely on imports – that result in lower earnings of foreign currency. If, in contrast, national strategies target to achieve parity among companies inside and outside the zones alike, linkages could be created between local suppliers and zone-based or export-oriented firms (located outside the zones, yet benefit from zone-like investment programs), such as Korea (FIAS, 2008; Schrank, 2001). This could be accomplished if domestic procurements is considered as exports and, thus, are qualified for export incentives. An automatic result of such tactic is motivating local suppliers to enhance their production quality, scale, pricing, and deliveries to be on par with international standards to attract more buyers and retain existing ones. In this case, global multinational companies (MNCs), which prefer to use international supplies as part of their outsourcing (FIAS, 2008, pp. 33, 38) and cost reduction strategies, might revert to local companies for their purchases; consequently, establishing and strengthening backward linkages to the domestic economy.

**Globalization impact and inaccessible preferential trade agreements**

The impact of globalization on EZs, as locations of attraction to FDI, might make them lose their glamour due to the rapid shift in international as well as domestic – if access to local markets with considerable sizes, like Egypt, is allowed – consumption patterns which affect geographical choices by foreign investors, who need to meet the fast-paced and pressure of such competitive demands. Besides, as production sharing capacity (i.e., the segmentation of the production process) has increased worldwide (Cling & Letilly, 2001; Madani, 1999) --
due to the easiness of moving capital and lower transportation costs, investors of some industries that do not require high technical skills, which is abundant in many developing countries, might not choose to relocate to the zones abroad (Madani, 1999, p. 20).

Related to the above is the exclusion of host economies from preferential trade agreements that might adversely affect the zone firms’ operations and exports. Even though those firms still positively contribute to the host country through their knowledge, technology and doing business techniques – among others as explained earlier, their contributions will depend on their adaptability to the rules of the country including its trade agreements and market in addition to its demand conditions.

Last but not least, incentives, like tax breaks, offered to companies located in EZs should be prohibited in WTO member countries whose per capita income exceeds 1000 dollars. Although signatories of the WTO agreement on subsidies and countervailing measures (ASCM), signed in 1994 and effective since 2004, should declare their subsidies to the Organization, some developing and developed countries have not declared theirs, hence, positioning either country, especially the former, in a situation where it can neither compete nor be exempted unless the affected country complains and proves the tort to the WTO. The Organization then investigates the matter and decides whether there are unfair commercial practices, which if proven, it applies compensatory measures on the country that violates the ASCM terms (Cling & Letilly, 2001; Madani, 1999).

**Weak zone planning and lack of good governance**

As many EZs have proven their success, others have either poorly performed or failed to garner any gains on the zone as well as national levels. The reasons behind the tremendous variability of accomplishments heavily rely on the inefficient planning for their location, development, management (Cling & Letilly, 2001; FIAS, 2008; UNCTC, 1990) in addition to the lavish -- unwarranted spending on facilities and incentive packages that are used to compensate investors on lack of amenities and poor locations of the zones (Cling & Letilly, 2001; FIAS, 2008). Some of the most common malpractices that lead to such undesirable results include site selection. On one hand, poorly chosen zone locations leads to extensive capital spending while unplanned development strategies (Cling & Letilly, 2001; FIAS,
2008) result in lack of services, maintenance, inappropriate facilities and site promotion activities. On the other hand, in the absence of good zone governance, the perverse effects of the lengthy procedures, ineffective rent and services’ subsidies, generous incentive packages (Cling & Letilly, 2001; FIAS, 2008), insufficient or multiple administrative agencies and lack of coordination between private and public sector roles in providing the necessary infrastructure, are costly and detrimental to the success of the zones and their expected functionalities (FIAS, 2008, p. 5).
Chapter 4

Economic Zones in Africa and MENA: Egypt’s Within a Broader Scope

Egypt’s geographical location positions it as an African country (see Figure 2) as well as a Middle Eastern one (see Figure 3). It, therefore, deems appropriate to shed some light on the general performance of economic zones in the African continent and the Middle East and North Africa region including the country of focus.

Similar to many zone programs, African and Middle Eastern -- including Egyptian -- zones differ in terms of objectives, scope, depth and degree of success – ranging across the EZs’ spectrum from world-renowned to notorious for their economic performance.

4.1 Africa

Although EZs can act as an effective development tool and provide multiple benefits for improving a country’s economic development and vitalizing its national economy, if appropriately planned and implemented -- as explained earlier, their outcomes are equally uncertain because their margin of error is minimal and the time required to progress is considerable. Additionally, institutional, operational and the national economy’s capacities are indispensable factors in driving EZs’ success and contributing to their economic salience. To that, Farole (2011) stated that many of the economic zones in Africa -- though have the potential to foster their economies and garner substantial gains, suffer general weaknesses, like limited capacities, lack of diversification, infrastructure, economies of scale and land constraints -- to name a few. Such deficiencies are cornerstones that largely impact
investment attraction and the maximization of trade preferences, which prominently feature any prosperous zone (pp. 182, 263-264).

On one hand, for instance, power outage in some African zones, though lesser than that outside the zones by 50%, reaches 44 hours versus -- the internationally accepted -- 4 hours per month. Likewise, customs clearance time is reduced to 30% for zones’ occupants versus non-zones’ firms. Despite the fact that there is a significant improvement in the investment climate inside the zones if compared to that outside them, it still falls short of the international standards and is not, by any means, sufficient to attract foreign investors. On the other hand, however, successful African zones use an EZ model that heavily rely on using their cheap factor endowments and investment protection policies to lure international investors while taking advantage of the technology transfer from foreign companies to their domestic markets (Farole, 2011, p. 7) as much as possible.

This traditional model, though accomplished some successful examples in the continent, still faces many challenges given the dynamic global trade and investment context, especially with the highly competitive and penetrating nature of “factory Asia,” expiration of MFA, amalgamation of global production networks (GPNs) and the lower markets’ demand for conventional exports. In spite of the aforementioned, restructuring existing African zones operating under the type of model previously highlighted can positively and viably address such issues by creating linkages with regional markets, attracting offshore services, promoting south-south trade and investment, and increasing the zones’ competitiveness in early- and- later stages of the manufacturing process rather than focusing on the assembly of imported components. In doing so, unsuccessful EZs in Africa will be able to exploit their idle capacities, build on their comparative advantages within their existing clusters and local labour markets – among many assets, grow in scale, and act as growth poles. In other words, the continent’s zones can become effective catalysts that deliver both static and dynamic benefits for the zones as well as fulfill the desired spillover and multiplier effects on the national level (Farole, 2011, pp. 7-9).
4.2 Middle East and North Africa: EZs’ Successful Models and Targets

The previous subsection has pinpointed that some economic zones in Africa managed to achieve economic gains. Some of those examples geographically exist in the Middle East and North Africa region. In this part, I will refer to some successful, world-class cases that have boosted their economic development through particular EZs’ programs while using different approaches to attain their specific goals.

Dubai Media City (DMC), for example, is one of the most reputable among the 24 zones in the United Arab Emirates (UAE). The country’s government targeted specific industries (Fodor, 2009) in efforts to promote its economy. DMC was established, in 2001, with a special focus on media-related industries. It hosts regional and foreign companies, including CNBC, CNN, Forbes, MBC, Reuters, and Showtime (“Welcome to Dubai,” 2014). Similarly, in Egypt, the Egyptian Media Production City (EMPC), established in the mid-1990s, was granted the free zone status according to a cabinet decree issued in 2000 (“The Media Free,” 2008), is very well-reputed along with other special economic zones, like the Northwest Gulf of Suez zone (called SEZone). The latter, launched its activities in 2002, is in close proximity to the closest port, Sokhna Port, to the country’s capital, Cairo (“Egypt-Sokhna,” 2009). Its objective is to specialize in logistics and light industries based on cluster formation within the zone. The port is the first to be privately operated (“Special Economic Zones,” 2012), currently, under a world-class Emirati terminal operator, namely DP World (“About DP World,” 2014).

Another example of a successful EZ in the region is Jordan’s Aqaba Special Economic Zone (ASEZ). The zone, established in 2001, targets diversified sectors ranging between secondary (i.e., manufacturing), heavy industries, to tertiary (i.e., services), largely – almost 50% -- tourism, while aiming to attract 80% of the zone’s investments from the services-related industries including tourism (“Aqaba Special Economic,” n.d.). ASEZ has an autonomous administration operated under a public-private-partnership, Aqaba Development Corporation (ADC), that owns equal shares to that of the government (50% each), thus, making it an independent entity with a private sector orientation (“Aqaba Development Corporation,” 2010). The zone has successfully attracted more than 300 companies with investments worth $400 million (Fodor, 2009).
The, Moroccan, Tanger, also called Tangier, Free Zones (TFZ), established in 1999, illustrates one more case of success in the region concerned. The North African zone comprises 475 foreign companies with their headquarters across the globe, from the U.S., Europe, and MENA as well. TFZ enjoys diversified industries, which include, though not limited to, textiles, automotive, aeronautics, computer engineering and training (“Who We Are,” 2010).

4.3 Economic Incentive Approaches and Outcomes

The above productive EZ examples across the African continent and MENA region are a few among many others, like those in Algeria, Kuwait, Lebanon, Tunisia, and Yemen – just to name a few. Although their models, approaches and incentives differ aiming to fit their specifically designed targets, they share some common practices that help in achieving their goals, at least partially. For instance, while subsidies – except, for training purposes, to some extent, like in the case of Jordan – are generally avoided, financial incentives reflected in lower property rentals and – though by nature -- utility rates are provided by some countries, like Egypt, Lebanon, UAE, Tunisia and Kuwait. Other incentives include facilitating land purchase through government programs, such as Morocco’s, which allow some financial support for interested investors. Tax abatements in the form of, partial or full, corporate tax holidays or personal income tax exemptions, and for different periods of time, are other forms of incentives applied by Lebanon, Morocco, and Yemen for the former whereas Algeria, Kuwait, UAE and Egypt follow the latter. As stated, income tax privileges for foreigners are also variably provided among countries. Jordan, for example, provides a 12-year tax holiday; Tunisia allows for a 20% flat income tax rate; and, Yemen follows a full exemption tax strategy (Fodor, 2009).

The aforementioned policies have accordingly been translated into higher investments, exports, and employment rate. FDI attraction to the successful zones in the continent and region concerned is noticed across different sectors, as sporadically hinted earlier for Jordan and Morocco. This is also confirmed in the case of Egypt. The country’s foreign investments’ share, in the zones, accounted for 9.5% of its total FDI in 2007-2008. Zones’ exports contributed 20.3% of the total national exports while employment reached 136,000 in June 2008 (Fodor, 2009). As part of its aggressive economic reform and adjustment
program during 2004-2008 to attract FDI and promote economic growth (CIA, 2014a),
Egypt’s gains from economic zones are crystal clear particularly in the case of the
Qualifying Industrial Zones -- which will be illustrated in a later section in this paper.

It is worth noting that Egypt’s, as well as other countries’, success is partially attributed to
the diligent efforts exerted in simplifying the administrative procedures and enabling the
investment climate, among other initiatives, aiming to promote a conducive and seamless
business environment. However, this does not mean that the zones in Africa and MENA,
including the successful ones, are efficiently operated. There are many inherited issues
related to their institutional capacities, rule of law, productivity and labour markets (Fodor,
2009), among others, that need to be rigorously addressed to fully utilize the zones and
achieve their optimal level of success and outcomes.
Chapter 5

Egypt’s Political and Economic Overview

5.1 Politics at a Glance

<table>
<thead>
<tr>
<th>Table 1: Egypt &amp; Government</th>
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<td>Conventional long name</td>
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<tr>
<td>Capital</td>
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<tr>
<td>Government type</td>
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<tr>
<td>President</td>
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<td>Administrative divisions</td>
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<tr>
<td>Flag</td>
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<tr>
<td>National symbol</td>
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Source: CIA, 2014a
* Source: GeoNames, n.d.

Figure 4: Egyptian Flag


Figure 5: Egypt’s Map

Source: Infokart, 2014

From the above maps (see Figures 2, 3, and 5), Egypt is strategically located between three major continents, namely Africa, Asia and Europe. Location privileges and importance to
regional and international trade and politics will be highlighted in the situational analysis section of this document. At this point, however, a brief about the country’s political system and current situation will pave the way to a better understanding for both the endogenous and exogenous challenges as well as the potential solutions proposed through the model.

Instability in Egypt’s political system has surfaced since the beginning of Arab Spring movement in the region, which resulted in the 2011 Youth Revolution in the country and ended by toppling former President Hosni Mubarak’s government, the election of the -- currently ousted -- President Mohamed Mursi, and ending by the newly elected President Abdel Fattah Al-Sisi – who officially took office in June 2014. Without going into further political details, the 2011 revolution has created a creative tension which is hoped, by many, to be, at least, partially resolved by Al-Sisi. The revolution has undoubtedly burdened Egypt’s emerging economy and since then the country’s political instability have adversely impacted the economic conditions, repelled foreign investors and hampered local businesses from maintaining – not to mention expanding – their investments in the country. Nevertheless, the overall outcome is a plunging economy and a general reluctance of gaining Western support in contrast to that of the Gulf region, particularly after President Al-Sisi took office (Saleh & Fick, 2014).

That said, a quick review on how Egypt is progressing in relation to social, economic and corruption developments pre and post the revolution as well as in comparison to the world deems relevant and of importance to the current political circumstances. Thus, I have chosen two indices, namely the Human Development Index (HDI) that measures the first two indicators and the Corruption Perceptions Index (CPI) that gauges the latter, which can serve the desired purpose.

HDI is a single statistic that measures a country’s social and economic development in relation to different dimensions on a scale that ranges from a minimum score of 0 to a maximum score of 1 (UNDP, n.d.). Egypt is medially ranked at 112 of the 186 countries on the Human Development Index. The country’s index value has improved from 0.407 to 0.662 during 1990-2012. Egypt still maintains its 2011 position, i.e., 112, in 2012 (Malik,
2013, p. 149) despite the challenges the country has been going through since the Youth Revolution and its aftermath.

The other aforementioned index, CPI, measures the perceived corruption level of the public sector in 177 countries on a scale from 0 (highly corrupted) to 100 (very clean). It is worth noting that while a few countries fall within the 90s, almost two-thirds of the countries fall below 50, including Egypt. Figure 6 illustrates that the country scored 31 in 2010 (up from the 28 mark in 2008 and 2009). Further improvement, though slim, have continued in the following years. The country currently stands at 32 points for 2012 and 2013 repeatedly (Transparency International, 2014).

Figure 6: Egypt’s Corruption Perceptions Index in 2012

![Figure 6: Egypt’s Corruption Perceptions Index in 2012](image)

Source: Transparency International, 2014

5.2 Economy in Brief

<table>
<thead>
<tr>
<th>Table 2: Egypt’s Economic Indicators (2013 est.)</th>
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<tr>
<td>Real GDP growth rate (estimated)</td>
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<td>GDP composition by sector</td>
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<td>GDP per capita</td>
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<td>Industrial production growth rate</td>
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<td>Inflation rate</td>
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<td>Exports</td>
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<td>Imports</td>
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<td>Budget deficit</td>
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<td>Public debt</td>
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<td>Unemployment rate</td>
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Source: CIA, 2014a
CIA (2014a) ranked Egypt 151, among its 220 country list, for its real GDP growth rate. The country’s real GDP growth rate for 2013 reached 2.1% (see Graph 1) which, if compared to top developed countries, is equal to that of the United Kingdom, yet almost 0.5% higher than each of the U.S. and Canada (1.6%), for instance. The World Bank (2014a) forecasts that Egypt’s economic outlook will pick up, though continues to be weak, as partially reflected in its GDP for 2015 and 2016 reaching 2.9% and 3.2% respectively. It is noteworthy that the international bank’s guesses did not include the share of the ongoing development projects in the country’s GDP, among other measures, due to the time difference between the period the projected figures were prepared and that of the implementation of such projects, which only started in the last quarter of 2014 – as will be referred to in later sections.

**Graph 1: Egypt’s Annual GDP growth (%)**

(1999-2013)

![Graph 1: Egypt’s Annual GDP growth (%)](source)

The country’s GDP per capita, ranks 144, is estimated at $6,600 dollars in 2013 similar to that in 2012. While the services sector contributes to almost half of the country’s GDP, the major industries (accounting for 37.5% of the GDP) include textiles, food processing, tourism, chemicals, pharmaceuticals, hydrocarbons, construction, cement, metals, and light manufactures. Agriculture products, back 14.5% of GDP, are equally diversified and largely focused on cotton, rice, corn, wheat, beans, fruits, vegetables as well as cattle, water buffalo, sheep, and goats. Although Egypt’s industrial production rate, ranked 138, is, for example, at par with that of Canada, at 1.4%, it is way below many others in the MENA region including Qatar, Jordan, Saudi Arabia, and Algeria (2.9%, 2.8%, 2.7% and 2.5% consecutively).
Inflation rate is expected to reach 9%, i.e., 1.8% higher than the 7.1% compared to 2012 estimates (CIA, 2014a). Egypt’s trade balance is projected to record lower deficit in the balance of trade, accounting only for exports and imports, as the slight upward slope in the country’s exports ($0.12 billion) is expected to be offset by the $1.04 billion decrease in imports if compared to 2012. The country’s major export commodities are crude oil, petroleum products, cotton, textiles, chemicals and processed food, while the majority of its imports include machinery, equipment, food stuffs, wood products and chemicals, among others, as illustrated in Figure 7.

**Figure 7: Egypt’s Exports and Imports by Category**

![Figure 7: Egypt’s Exports and Imports by Category](source)

Source: Observatory of Economic Complexity, n.d.

Egypt’s trading partners include a variety of countries across the globe. In 2012, its major export partners were comprised of Italy, India, U.S., Saudi, Turkey, and Libya respectively (see Chart 1). The country’s import partners, mostly different from its exports’ counterparts, are China, U.S., Germany, Russia, Ukraine, Turkey and Italy consecutively (see Chart 2).

**Charts 1 & 2: Egypt’s Trading Partners**

![Charts 1 & 2: Egypt’s Trading Partners](source)

Source: CIA, 2014a

Note: Data is collected from CIA, 2014a, and drawn by the author
One crucial challenge the country faces is the significant gap between its revenues and expenditures, which leaves the country with an expected budget deficit that reaches 13.3% of its GDP making it the fourth lowest (213) ranking among 216 countries. That is an enormous discrepancy, especially, if compared to the huge surpluses recorded by other MENA countries, like that of Kuwait (leading the list with a 29.9% budget surplus). Another essential, yet poorly performing, economic indicator of the country is its public debt, which is expected to hike by 4.2% in 2013, up from 88% in 2012. Even though Egypt is ranked, 19, on the top 20 list of the mostly indebted 161 countries, the positive side is that it is not scoring the highest debt as Japan (226%), for instance, and is also close to some developed countries, such as Canada (ranked 23 with a debt of 86.3%) and the United States, 36, with a debt of 71.8% (CIA, 2014a). Despite the fact that some of Egypt’s economic indicators are scored close to some top developed nations, this does not mean that the country should postpone addressing those issues with the appropriate monetary and fiscal policies or deal with them in laxity. On the contrary, it means that the country has to rigorously examine the economic policies that back the developed as well as successful emerging economies and help them achieve economic growth, stagnate, slightly deteriorate – rather than plumbing new depths, or become resilient to economic shocks, when needed. That said, Egypt should allocate its resources and direct them towards productive economic activities that can bring further stability and development to the country, hopefully, in the near future, thus, reducing its public debt and, eventually, decreasing its estimated unemployment rate whose estimate was pushed up by 0.7% between 2012 and 2013 (CIA, 2014a).

From the above, the political and economic overview of the country concerned shows some signs of improvement among many upcoming challenges that face the country, especially with its yet unresolved conflicts and unrest. Nonetheless, The optimism of Egyptians in particular and, at least, most of the regional states in general – after President Al-Sisi took office – might provide a brighter picture for a politically stable country with brighter hopes for economic development and prosperity to come.
Chapter 6
Persisting Challenges

6.1 Population Growth and Absence of Skilled Human Resources

Dependency ratio and labour market constraints

McLean (2011) stated that human capital is a vital asset that contributes to economic expansion and ignites a country’s “agenda for prosperity.” While developed countries face aging and below replacement populations, developing nations, including Egypt, has a massive youngsters’ base – nevertheless lately decreasing. Such structure of young population, though should be considered as an engine for economic growth is, meanwhile, quite challenging for the country concerned.

The country’s population is estimated to reach almost 87 million in 2014 (CIA, 2014a), an increase of 64 million since 1960 (Abdallah, Barry, Beal, Said, & Vartanov, 2012, p. 1). The United Nations Economic and Social Commission for Western Asia (ESCWA) approximate calculations indicate that Egypt’s total dependency ratio will reach 58% by 2015, down from 59 in 2010. The child dependency ratio, 49%, largely contributes to the above figure followed by the old-age dependency ratio, only 9%. It is worth noting that the above ratio, representing individuals under the age of 15 and above 65 respectively, has decreased historically (n.d., p. 9), yet is still considered a persistent predicament in Egypt’s case. The dilemma escalates as the remaining 42%, composing the working age population, not only faces high constraints in entering the labour market (Peeters, 2011, p. 3), but is also suggested – according to the foretold economic indicators – to anticipate an uncertain absorbable capacity that could contain a considerable portion of the unemployed, particularly in the presence of unforeseen, short-term solution for boosting jobs, incomes, and increasing employment rate especially after the political and economic instability the country experiences since its 2011 revolution. That is in addition to the 2008 global economic recession which, though indirectly hit the country, still has an adverse impact on its workforce. Even though the current economic development projects aim at significantly contributing to lowering the above percentages, they will not create enough opportunities to
absorb the aforementioned number. That, however, is expected to improve as the ventures accomplish their expected targets and further, queuing, ones start to develop in the near future and help engrossing additional sums.

Besides, the “labour market polarization” phenomenon that appeared in Egypt earlier in the millennium adds to the complexity of the situation. In the early 2000s, the labour market’s demand shifted from the low-skilled workers, like machine operators and assemblers, to high-skilled professionals and senior positions while that for moderate skills’ workers, a majority of the Egyptian labour force, has significantly dropped (ECES, 2011; UNCTAD, 1999). In the wake of deindustrializing the economy, industrial workers were the most disadvantaged in the country as their largest employer, i.e., the manufacturing sector, shrunk eating up almost 6% of the industry’s workforce during 2000-2009. The emerging market trend then had, therefore, led to a permanent degrading of the skill sets, higher supply as well as lower wages of, most of, the moderately skilled labour. Those who managed to upgrade their expertise had, however, used the opportunity of the rise of the services sector and integrated their newly acquired skill sets with their respective roles (ECES, 2011, pp. 3-6) in the growing industry.

**Lack of skilled human resources**

Not only does the growing population add to the scarcity of the country’s, already limited, resources, but it also jeopardizes Egypt’s development process. Most of the existing labour force neither has the necessary skills nor the required specialization for particular sectors that increases an industry’s comparative advantage. On one hand, the pre-eminence of human resources largely determines any firm’s sustainable competitive advantage on its competitors. Although on the job training and learning-by doing increases an employee’s competence level in performing specific roles, and accordingly increases productivity and lowers the hiring firm’s costs, Hatch and Dyer (2004) state that it is significant that the acquired knowledge remains exclusive to the employee’s firm in order to reach the aforementioned efficient results (pp. 1156-1157). I, however, argue that such knowledge and skills could have equal, if not higher, benefit if they are competently circulated, used and transferred within an industry’s cluster.
On the other hand, it is of critical importance to note that human capital is a crucial factor in making business development decisions for domestic as well as foreign investors. Decision-makers base their expansion or relocation choices on a multi criteria cost benefit analysis when considering a local, regional or international move. Although Egypt is a labour-abundant country, and has a skilled workforce in the textile industry, for instance, characterized by a low wage rate, new market entrants choosing the designated QIZs, for example, or elsewhere for their production facilities – mainly targeting low-cost, high volumes of exports to international markets – are met by a key constraint, namely shortages in the skilled labour supply. A further complication to this situation is that the manufacturing sector mainly comprises small and medium enterprises (SMEs). Employees of such establishments, usually, lack the necessary managerial skills and doing business techniques to meet the quality and delivery expectations of foreign firms (Kadah, n.d.; UNCTAD, 1999), whose demand for qualified labour, to achieve their production goals, is met by scarcity, which not only affects their decision to relocate to the zones in particular or the country considered in general, but also has an adverse impact on existing businesses’ exports (Ghoneim & Awad, 2009; Refaat, 2006) and their expansion plans that require higher quality and productivity levels to meet the dynamic and competitive demands of the international markets.

Based on the above discussion, Egypt’s invaluable human resources is largely wasted due to their lack of skills and unaffordable training expenses in an era where employees have moved to the “centre stage within business organizations” ("Why Human Capital," 2001) and searching for the scarce, talented human capital has become a foremost task for management teams.

6.2 Globalization and Trade Liberalization: Impacts and Implications

The introduction of globalization to developing countries, including Egypt, arrived in a pouch full of related, yet constraining, economic policies, like free trade, dismantling of trade barriers, privatization and market deregulation, among others. Such a restrictive economic bundle, unfamiliar to a world whose economic indicators are considerably poor and highly uncompetitive in international markets, were created as a result of the economic recessions following the hiking oil prices in 1973 and 1979, not to mention the Latin
American debt crisis in the early 1980s. Thus, the market was seen as the exclusive economic regulator that has the “magic” (Simon, 2008, p. 86) formula which is capable of restoring the slumping, Global North, economies. The concept, namely neo-liberalism, was presented to developing countries under, deterring, requisites of the, so-called structural adjustment programs (SAPs), Washington Consensus (Weeks & Stein, 2006, p. 676), whose slogan was “marketize, liberalize and tighten-your-belt policies” (Adelman, 1999, p. 6). The neo-liberal ideology became a globally mainstreamed economic policy hosted and implemented by the international financial institutions, as the International Monetary Fund (IMF), World Bank and the Inter-American Development Bank (Martinez & Garcia, 1997, p. 2).

In Egypt, the implications of applying the SAPs and its encapsulated conditionalities had a backlash on the economic and social welfare, adding more pressure to the growing, underprivileged, population. The 1974 Open Door policy, implemented by former Egyptian President Anwar Al-Sadat driven by reducing government expenditures, eventually, led to the contraction of the economy. Adjustment strategies were based on budget deficit cuts reflected in tighter spending on major public services and projects that are, though mostly needed, related to infrastructure, education, and health care. Besides, the social welfare moneys were almost eradicated. Wynne (2011) describes the situation as “a commitment to dismantle the social and welfare provisions of the state and to hand the initiative to private business” (p. 140). The substandard “pattern” of the adopted economic policies (Payne & Phillips, 2010, p. 111) were followed and amplified during President Mubarak’s administration, yet praised as an economic reform model by the IMF and ranked the country as the “the world’s top reformer” by the World Bank in 2007 (Wynne, 2011, p. 141).

Though applauded by the international financial institutions, the structural adjustment and economic reform policies continued to have severe implications on the inherited domestic economy during Mubarak’s era. In 2009, for example, unemployment level reached its peak after the privatization of 161, almost 51% of the, state-owned companies, and which resulted in laying off nearly 60% of the public sector staff (Wynne, 2011, p. 141). As a normal consequence of the aforementioned challenges, foreign capital inflow fell short of servicing the escalating debt requirements and added more burdens to the national economy.
“bring[ing] even more suffering than before” (Martinez & Garcia, 1997, p. 2).

6.3 Foreign Direct Investment: Insubstantial Spin-offs

It is noteworthy to reinstate that businesses seek FDI for various impetuses. Though investors’ decision is largely based on realizing higher profits by lowering their production costs and pursuing locations that are abundant with cheap factor endowments, the “overwhelming portion” (Caves, 1971, p. 3) of FDI, however, is chosen on the grounds of expanding into new souks. Driven by specific company objectives, such expansions could either be vertical or horizontal. For instance, while vertical expansion of foreign companies in host countries could be driven by input-cost differentials, close proximity to some industries, like extractive ones, horizontal expansion, on the other hand, is optimally chosen to cut transportation costs to reach target audience, or to operate either closer to or in the vicinity of patrons. Either case necessitates the physical presence of the foreign company overseas (WTO, 1996) pending the pre-set arrangements.

In some instances, international businesses choose FDI to substitute, and, particularly, evade tariff barriers to trade (Blomstrom & Kokko, 1997; Blomström & Persson, 1983; De Mello, 2006; Kamar & Bakardzhieva, 2002), while in other cases, investors select it as their mode of entry into a new market in order to complement their trade activities (De Mello, 2006; “Foreign Direct Investment,” 2014). Investors’ decision, however, varies at different points in time pending their expected gain from one activity versus the other, i.e., FDI vs. trade, which DE Mello (2006) names the “optimal relocation theory” (p. 185). Market size, efficient use of the company’s fixed assets, and optimal use of the selected modes are central factors that businesses consider before progressively shifting from one market servicing mode to the other (Buckley & Casson, 1981, pp. 79-80). Although this holds true in most cases, some spreading out decisions not only disregard trade barriers, but also consider them as incentives to achieve higher profit margins (Gorecki, 1976, pp. 487-488).

Conversely, host countries attract and welcome FDI to bring economic benefits, including capital inflow, employment, knowledge and technology transfer – among many others. To that end, the host economy should, yet, meet certain criteria, such as adequate levels of labour force and local non-reproducible inputs, in order to garner the expected gains from
MNCs’ operations. De Mello (2006) stresses the importance of the above points and indicates that lacking such pre-requisites in a host economy leads to

... the idea of ‘development threshold’ for FDI. Empirical evidence suggests that, if FDI takes place before this threshold is attained, it may result in the creation of a dual economy, with foreign firms engaging primarily in assembly-type activities with a higher ratio of exports to domestic sales and higher imported input content than domestic firms and limited spillovers to the domestic market. (p. 185)

In relation to the above, Egypt’s economic reform and structural adjustment program (ERSAP), though restricted local businesses and reduced the country’s social welfare, largely contributed to gaining international investors’ confidence and, ultimately, increased the country’s capital inflow. The country’s 1997 investment law privileged foreign investors with a set of regulations that eased doing business in Egypt and set the stage for a conducive investment climate. The Government of Egypt (GOE) created a one-stop-shop to accelerate investment inquiries, registrations and procedures, provided alluring incentive packages, and, on top of all, protective measures and ownership rights for interested foreign investors (UNCTAD, 2006, p. 3). Egypt’s efforts were well-recognized and the nation was ranked the top African country in investment attraction (worth $10 billion) in 2006 (UNCTAD, 2008, p. 7). Inward investments – boosted by trade liberalization and privatization among other applied SAPs’ procedures and revised investment laws – of the United States (Momani, 2003; UNCTAD, 2008) followed by Europe and other developing countries led the way into the Egyptian market with shares of 36%, 31%, and 26% respectively (UNCTAD, 2008, p. 230).

Nevertheless, and as previously explained, Egypt – as the host country for FDI, in this case – does not meet the minimal quality standards that allows the country to reap the anticipated rewards from MNCs. There are limited, if any, positive spin-offs from the local supply chain linkages due to the disengaged local suppliers, undeveloped backward and forward linkages, and uncompetitive domestic market, just to name a few. Furthermore, as knowledge and technology transfer are important outcomes for any host country to foreign investments, both are, at the best, minimally realized in Egypt’s case. The reason behind this marginal gain is,
as referred to earlier, that the country lacks both the doing business knowledge and the necessary level of technology that can upgrade its workforce skills and industry productivity. Besides, the republic heavily relies on labour-intensive industries aside from those of telecommunications, insurance and finance. Meaning, Egypt’s technological application in various sectors is trivial and uncompetitive if compared to MNCs’ – that surely possess top, or at least better, knowledge and advanced technologies in their respective industries – operating privileges in the Egyptian market and that, accordingly, allow them to exercise their “anticompetitive dominance” (Kadah, n.d.; Weisse, 2006), take full advantage of the existing market inefficiencies and, ultimately, increase their revenues. Thus, the premise that “spillovers grow with the technology gap” (Findlay, 1978; Kokko, 1994) is void under the given conditions in the country concerned. Kadah (n.d.) supports the deduced rebuttal by providing the results of 20 surveyed MNCs in Egypt, like Proctor & Gamble, Mercedes, Vitrac, and, Mitsubishi Electric, which illustrate that they use outdated, more than a decade old, technology in their operating facilities in the country (p. 8). Consequently, the anticipated know-how and technological spillovers, if exist, are negligible.

It is clear from the above discussion that FDI spin-offs in Egypt are generally insubstantial. Hence, in order to safeguard the country’s balanced investment strategy, it is critical to build stronger capacities, and leverage its resources efficiently to gain advantage from MNCs and, most importantly, strengthen and encourage domestic companies to compete nationally as well as internationally. The outcomes of all efforts combined will be, eventually, translated into long-term, valuable and profitable assets to Egypt’s economy, its organic growth and development strategy.
Chapter 7

Environmental Scan: Current Situational and SWOT Analyses

Environmental scanning is a fundamental constituent of a successful strategic plan for local, national and international ventures. This section intends to elucidate Egypt’s macro and micro environmental scans. The former highlights the country’s assets, trade agreements, market demand as well as potential trends while the latter draws on specific details within the Egyptian textile industry, i.e., the industry of focus, that explain why it is chosen for this model. A SWOT analysis will follow to identify endogenous strengths and weaknesses as well as exogenous opportunities and threats relevant to the industry’s situation analysis. The SWOT matrix will additionally help in illustrating both favourable and unfavourable aspects that might foster or challenge the goals of the proposed model.

Macro Environmental Scan

7.1 Egypt’s Assets: An Assessment

The following subsections will assess Egypt’s assets, shed light on its unique capacities while pinpointing areas for improvements to help mobilizing the country’s assets, building on them and driving the economic development process.

History and location

Egypt’s strategic geographic location enriches its ancient, almost 7000 years, history. The country is located in the centre of three major continents; Africa, Asia and Europe (SIS, n.d.a). Its northern coastal zone is lined by the Mediterranean, Earth’s major (Briney, 2014), Sea which extends from its eastern border shared with the Gaza Strip and Israel to its common western border with Libya. The Nile, the world’s longest (SIS, n.d.b), River stretches across the country linking its northern and southern edges, outspreads to its Southern neighbour, Sudan, and further beyond into the continent. The North African state has a lengthy eastern coast on the Red Sea which is connected to the Mediterranean Sea by one of the largest two inter-oceanic canals, namely the Suez Canal as depicted earlier in Figure 5. Privileged by its multiple coastal lines and water gateways, the Suez Canal plays
an exceptional role in facilitating Egypt’s trade and global shipping flows (Ducruet, 2012). The country’s proximity to global markets (see Figure 8) makes it a trading hub between north and south, east and west. Egypt is a few-hour flight to most African, Asian and European countries, and almost half a day flight to the Americas and the Far East (GAFI, 2012b). Egypt’s distinct geography makes it bear a crucial political and economic weight both regionally and internationally.

**Figure 8: Egypt’s Proximity to Global Markets**

![Map showing Egypt's proximity to global markets](image)

Source: GAFI, 2012b

**Young population**

Egypt’s population, almost 87 million, makes it the most populous in the Arab World (Cable News Network [CNN], 2014). The country’s capital, Cairo, almost 11.2 million inhabitants (CIA, 2014a), is the largest city in Africa and the Middle East, 16th metropolitan and 10th urban area in the world (WorldAtlas, n.d.). Malone (2006) listed the city as one of the top 10 densest cities in the world. Although investing in the country’s population posits an economic challenge especially under the prevailing conditions – as explained earlier, its young base is one of Egypt’s most valuable resources. Graph 2 exhibits the nation’s working-age population in 2014, which is quite substantial, 62.9%, that comprises three cohorts. The largest, 38.4%, falls in the 25 to 54 group followed by the youngest (aged 15 to
24) and the eldest (aged 55 to 64) segments forming 17.8% and 6.7% respectively (CIA, 2014a).

**Graph 2: Egypt’s Population Age Structure (2014 estimates)**

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**Education**

Egypt’s education system is one of the largest in the Middle East and North Africa region. The country has 28 state-funded and 33 private universities and institutes (Wikipedia, 2014c). It, additionally, has a variety of world-class, internationally accredited and certified education institutions, including the American, German, French, British, Japanese and Canadian universities, among others. In 2013, Malik’s *Human Development Report* stated that Egypt’s spending on education is 3.8% of its GDP during 2005-2010, which is almost 1% lower than the world’s (4.9%) and 0.1% lower than that of the Arab region (3.9%) over the same period (pp. 163-165). According to GAFI (2012b), annual university graduates reach 300,000, of which 22,500 earn European languages’, 20,000 engineering, and 15,000 science and technology degrees. The country is well-known for being a net exporter of skilled workers in the region. Egypt’s labour force approaches one-third of its total population (ALEXBANK, 2011; GAFI, 2012b). The industrial sector absorbs almost 30% of the country’s workforce while the textile industry, the “largest single employer,” retains about 25% of the aforesaid percentage (ALEXBANK, 2011, p. 5).

Egypt’s education system produced global, exceptional, renowned, Noble Prize winners and exemplary professionals in multiple fields across the world which is outstandingly and
undeniably proving ground that the country’s education did not occur in vacuum. That said, however, the, formerly, solidly-founded system’s recent outcomes, particularly of public institutions, indicate that it, to a far extent, lost its shine – due to budgetary and non-budgetary issues. The waning support for the existing system could be, yet, restructured and vitalized if a concrete and long-term planning, implementation and monitoring scheme is set in place. It is important to consider that the newly elected government’s agenda is already crowded, thus, addressing this field might require more time, not to mention the timeframe to realize some success. This is not to say that change cannot start in the short-run; on the contrary, initiatives could be planned and executed using collaborative Egyptian stakeholders’ efforts and expertise supported by the authorities’ approvals as will be exemplified in the proposed model, yet, for the purpose of this paper, is specifically devised for the textile industry.

Infrastructure

In 2010, the World Bank hailed Egypt’s endeavours in improving various infrastructure sectors, like transportation, telecommunication, and power generation, among others, given its income level (Loayza & Odawara, 2010, p. 2). Not only did the World Bank recognize Egypt’s developments in this regard, but also the Organization for Economic Cooperation and Development praised the country’s remarkable efforts in reforming its infrastructure by injecting a stimulus of $2.7 billion, that later doubled, after the global economic meltdown in 2008 in efforts to advance its investment climate and phase out from factor- to- investment-driven development. In its assessment, OECD (2010) identified Egypt’s achievements thus far as follows:

*Widely available provision*

Egypt provides more basic infrastructure than many comparable countries. Fixed telephone line density is higher than in most North African countries, rural road accessibility is also much higher than average, and the 40% modal split of passenger rail

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5 OECD (2010) explains factor-driven development as a type of development that deploys cheap factor endowments and resources while investment-driven development targets heavy investments to increase productivity and attract capital (p. 4).
travel is higher than in most OECD countries. Electricity and water are also very widely available, covering respectively 99% and 98% of the population.

Very competitive cost
Not only is the infrastructure available, but it is cheap (see Table 3). International benchmarks on domestic telecommunications prices, road tolls, railway tickets, shipping, electricity and water prices invariably show Egyptian prices to be much lower (often by a factor of two, three, or more) than regional averages. (p. 4)

<table>
<thead>
<tr>
<th>Utility</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity⁶</td>
<td>$0.03-0.07/kWh</td>
</tr>
<tr>
<td>Water⁷</td>
<td>$0.03/m³</td>
</tr>
<tr>
<td>Gasoline⁸</td>
<td>$0.22-0.36/L</td>
</tr>
<tr>
<td>Diesel</td>
<td>$0.25/L (see Footnote 8)</td>
</tr>
<tr>
<td>Natural Gas</td>
<td>$0.15/ m³ (see Footnote 8)</td>
</tr>
</tbody>
</table>

Sources: OECD, 2010; Reuters, 2014; The Guardian, 2014; (see Footnotes 6-8)
Note: The above prices are based on the exchange rate of $1= 7.15 Egyptian pounds (LE)

This section will present the country’s developments, which continued in the following years in spite of its political unrest and economic underperformance.

➢ Transportation: Air, Sea, Rail and Road Networks

Air: Airports

Egyptian airports, 29, are composed of 10 international (Ministry of Civil Aviation, trans. n.d.; Wikipedia, 2014b), 11 domestic, and two privately-owned other than five airports whose capacities serve dual roles as domestic and international (Wikipedia, 2014b) when needed. In 2011, a ranking based on airports’ capacity and performance placed three of

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⁶ In efforts to reduce Egypt’s current deficit, and under the newly adopted reform policies by President Al-Sisi, subsidies on utility costs are gradually being lifted over the coming five years. Electricity prices currently at $0.03 will almost reach $0.07 during the aforementioned period. Increments are inflicted as of July 2014 (Reuters, 2014).

⁷ The water price per cubic meter is that of 2008 (OECD, 2010, p. 11).

⁸ Gasoline prices increased, reaching their highest levels, as of July, 2014. Various rates are applied ranging between 40% and 78% for different grades. Diesel also increased by 63% while natural gas surged by 175%, based on Al-Sisi’s reform policies (The Guardian, 2014) as referred to in footnote 6.
Egypt’s international airports among the top 10 African airports. Cairo, Hurghada, and Sharm El-Sheikh international airports were ranked fourth, fifth and sixth, consecutively (Rudd, 2011). The country’s national airline company, Egypt Air, has three cargo terminals that handle various industrial products, vegetables and textile goods (GAFI, 2012b).

**Maritime: Ports**

Maritime transport is responsible for almost 80% of global trade volume; thus, the sector contributes to a country’s economic prosperity by increasing its trade competitiveness and fuelling its economic growth (UNCTAD, 2013a). That given, and as preluded to, Egypt borders lengthy coastal lines on major seas and canal, which makes it a world trading hub. Despite the disturbed condition of the country, it is globally positioned the nineteenth in container port traffic, ranked one of the top two African countries – advancing South Africa (nineteenth), and eleventh of the top 20 developing countries and transitional economies in port development, particularly its container port throughput, during 2011-2012. The period reviewed, additionally, witnessed an increase of 4% of its TEU if compared to 2010-2011 (UNCTAD, 2013b, pp. 179, 88).

Egypt has a total of 59 ports, including those located within economic zones; 15 commercial and 44 specialized (MTS, 2014a). The latter are largely responsible for receiving and handling industry specific vessels of products and services, such as mining, tourism, fishing,

<table>
<thead>
<tr>
<th>Table 4: Egyptian Ports’ Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Record</strong></td>
</tr>
<tr>
<td>Total number of main Egyptian Ports</td>
</tr>
<tr>
<td>Total lengths of Terminals of Commercial sea ports</td>
</tr>
<tr>
<td>Total area of Commercial sea ports</td>
</tr>
<tr>
<td>Total area in terms of watery</td>
</tr>
<tr>
<td>Total area in terms of flooring</td>
</tr>
<tr>
<td>Total number of specialized sea ports</td>
</tr>
<tr>
<td>Total number of Tourist sea ports</td>
</tr>
<tr>
<td>Total number of Petroleum sea ports</td>
</tr>
<tr>
<td>Total number of Mining sea ports</td>
</tr>
<tr>
<td>Total number of Fishing sea ports</td>
</tr>
<tr>
<td>Total number of Sohar Points</td>
</tr>
</tbody>
</table>

Source: MTS, 2014a

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9 Port throughput is “the amount of cargo passed through a port and is measured in volume or units and categorized by cargo type.” Container port throughput is measured by the number of 20-foot equivalent unit (TEU) moved (UNCTAD, 2013b, p. 88).
and petroleum, among others (see Table 4). Besides, specialized ports are characterized by particular features for their platforms or berths, for instance, to serve certain purposes (MTS, 2014b). Graph 3 illustrates Egypt’s fleet profile, rated 16, among the major 48 ship-owning developing and transitional economies as of January 2013 (UNCTAD, 2013b, p. 46).

**Graph 3: Egypt’s Fleet Profile Among the Top 48 Ship-owning Developing Countries and Transitional Economies (January 1, 2013)**

Source: UNCTAD, 2013b

**Land: Road and Rail Networks**

Egypt’s road and rail networks are highly dense and accessible. The country invests almost 0.7% of its GDP on road transportation. Though at adequate level and higher than the sector’s spending in similar countries, the allocated budget is lower than that invested by others in the region, like Morocco which devotes 1.24% of its GDP to road developments (OECD, 2010, p. 8).

Egypt extends 23,619 kilometers of road networks (General Authority for Roads, Bridges and Land Transport [GARBLT], trans. n.d.), 885 bridges and tunnels and 9,570 kilometers of rail networks (ENR, n.d.) across the board. Egyptian railways cover most of the country’s largest and highly populated urban areas. Almost 40% of travelers use this transport mode, which makes Egypt one of the world’s top countries in its railway passenger transportation

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10 Fleet profiles indicate ship-owning by the main developing countries and transitional economies operated under national or foreign flags. However, most container ships are foreign flagged as they simultaneously serve various international trade routes and countries (UNCTAD, 2013b, pp. 35, 44).
According to the *Rural Access Index*\textsuperscript{11}, the state advances MENA’s average rural network accessibility by 18%, reaching 77% in 1999 (OECD, 2010; World Bank, 2014c).

Telecommunication: Telephony and Internet

**Telephones: Land and Mobile Telephony**

The telephony infrastructure comprises a landline and three mobile companies. OECD (2010) describes Telecom Egypt, the national landline company, by having superb reliability in its offered services, especially after shifting to digital switching. Landline penetration is among the top in North Africa and at par with MENA’s average. In addition to the landline company, there are three competitive mobile operators, namely MobiNil, Vodafone and Etisalat. The cellular telephony sector is opened for foreign investors, provides good quality services with viable prices recorded among the cheapest in the region (p. 6) and covers almost all inhabited areas (GAFI, 2012b). In June 2014, the Egyptian Ministry of Communications and Information Technology released the latest figures about the sector. In its report, subscriptions to mobile services increased by 3% in 2013 compared to the same period in 2012. The increment (see Figure 9) pushed the services’ penetration rate up by

\textbf{Figure 9: Landline, Mobile and Internet Penetration}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure9.png}
\caption{Landline, Mobile and Internet Penetration}
\end{figure}

\textsuperscript{11} The Rural Access Index (RAI) is a World Bank’s key transport indicator which measures the impact of transport accessibility and mobility on poverty reduction in developing countries (World Bank, 2014c).
1.25%, approximately reaching 118%, while adversely impacting the landline penetration rate, recording almost 2.3% lower for the aforementioned period (p. 2).

**Internet: Service and Penetration**

The provided broadband internet service is accessible to both businesses and households. Egypt’s MCIT (2014) stats indicate that the number of internet users reached 38.75 million in 2013, up from almost 32.62 million the year before (see Figure 9). Penetration rate witnessed about 6.5% increase, reaching around 46%, during the same period (p. 2). OECD (2010) stated that the upsurge of internet usage is mainly due to the personal computer’s penetration growth in the Egyptian market, 14%, which is still lower than MENA’s 17% average (p. 6).

- Water and Electricity

**Water: Freshwater and Supply Cuts**

As preluded to, Egypt’s drinkable water is accessible to 98% of its population. Reliability of the country’s water supply is much higher than MENA’s average. Egypt’s water supply cuts only reaches 4 days per month vs. 7.2 in the region. Its freshwater prices are competitively set, if compared to the region, although they do not cover its actual costs (OECD, 2010, p. 11) – an issue that needs to be addressed in the upcoming agenda.

**Electricity and Environment: Power Generation Types, Plans and Sustainability**

Ninety-nine percent of the Egyptian population has access to electric sources. The country is among the highest records in electrification ratios in MENA and among the most economical prices as well (OECD, 2010, p. 10). Under the New & Renewable Energy Authority, Egypt targets to generate 20% of its power needs from renewable energy sources (NREA, n.d.; OECD, 2010), including 12% wind, 6% hydro, and 2% solar energy, by 2020 (NREA, n.d., p. 3) -- in line with the European Union’s strategy (OECD, 2010, p. 10). Egypt’s considerable amount of sunshine makes it among the Sunbelt countries (NREA, n.d., p. 11). Its current installed capacity and total produced energy are depicted in Graphs 4 and 5 by type of energy. Though ambitious under the current political and economic challenges, the
administration, at least, has a plan set forth towards a more sustainable and clean environment.

To conclude this part about Egypt’s performance pertaining to its efforts in improving its infrastructure, the OECD’s Business Climate Development Services (BCDS) summarizes the country’s upward enactment in each of the above subsections as portrayed in Table 5.

Table 5: BDCS Assessment Framework for Egypt’s Infrastructure

<table>
<thead>
<tr>
<th>Infrastructure Conditions Facing Business</th>
<th>Telecommunications</th>
<th>Transport, Road, Rail, Air, Maritime</th>
<th>Energy</th>
<th>Water &amp; Sanitation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance</td>
<td>- Getting connected</td>
<td>- Supply, density and quality</td>
<td>- Getting connected</td>
<td>- Getting connected</td>
</tr>
<tr>
<td></td>
<td>- Telephony and Internet penetration</td>
<td>- Expenditure on the networks</td>
<td>- Service cost</td>
<td>- Service cost</td>
</tr>
<tr>
<td></td>
<td>- Service quality</td>
<td>- Service costs</td>
<td>- Service reliability</td>
<td>- Service reliability</td>
</tr>
<tr>
<td></td>
<td>- Service cost</td>
<td></td>
<td>- Sustainability</td>
<td></td>
</tr>
</tbody>
</table>

Source: OECD, 2010

BCDS’ assessment is also supported by a PricewaterhouseCoopers’ survey conducted, among global and Middle East investors, in 2012. The study points out investors’ increasing level of post-revolution confidence in Egypt’s economy, specifically in mega capital and infrastructure projects as illustrated in Graph 6. Respondents ranked Egypt – tied with Saudi Arabia – 3rd following, closely, UAE and Qatar respectively among the countries targeted for their investments in 2013 (p. 9).
7.2 Preferential Trade Agreements with a Special Focus on the Qualifying Industrial Zones

As referred to earlier, the impact of globalization fragmented the production processes, making them global rather than local, and intensified competition across the world. Thus, and to emphasize, globalization is reshaping the international environment, dramatically blurring boundaries and ultimately altering the geoeconomic and geopolitical features.

Egypt’s economic integration with different countries, regions and economic blocs is multiple. In Graph 7, the republic is ranked among the top 15 developing countries that have substantial relationships with more than 100 trading partners in 2010-2011 if compared to 1995-1996 (Malik, 2013, p. 16). Even though the signed pacts vary in form between partnerships, free trade agreements (FTAs), bilateral investment treaties (BITs), protocols, and trade and investment framework agreements (TIFAs), all pursue the same target of

Graph 7:
Egypt among the Top 15 Developing Countries for Substantial Relationships with More Than 100 Trade Partners

Source: Malik, 2013
creating as well as promoting trade and investment opportunities while resolving related
issues – among the parties involved – that aim at driving economic growth. The country is a
signatory of eight, bilateral and multilateral, preferential trade agreements (PTAs) – that
range in their privileged terms between the reduction of tariffs and their elimination – other
than 73 BITs, a protocol (GAFI, 2012a; Momani, 2007) and a TIFA with the United States
(Momani, 2007; USTR, n.d.d).

Table 6 demonstrates Egypt’s agreements, their co-signers as well as respective market sizes
– pending availability of figures. The list of countries and figures of consumer markets are
provided to emphasize Egypt’s accessibility to substantial marketplaces, which is largely
attributed to its geographical location, economic significance as a global trade hub, and, in
some instances, its political weight in the region, like that of the QIZ protocol.

**Table 6: Egypt’s Trade Agreements, Signatories, and Accessed Market Sizes**

<table>
<thead>
<tr>
<th>Trade Agreement &amp; Form</th>
<th>Signatories</th>
<th>Accessed Market Sizes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Egypt-EU Partnership Association Agreement</td>
<td>Includes Egypt &amp; 15 EU member states: UK and Northern Ireland, France, Germany, Belgium, Denmark, Spain, Italy, Luxembourg, Netherlands, Austria, Portugal, Finland, Sweden, Hellenic Republic, and Ireland</td>
<td>500 million</td>
</tr>
<tr>
<td>2. Egypt-EFTA Partnership (FTA)</td>
<td>Includes Egypt &amp; four EFTA countries: Iceland, Liechtenstein, Norway and Switzerland</td>
<td>Not applicable (N/A)</td>
</tr>
<tr>
<td>4. Agadir Declaration (FTA)</td>
<td>Includes Egypt &amp; three Mediterranean countries: Jordan, Tunisia and Morocco</td>
<td>N/A</td>
</tr>
<tr>
<td>5. Greater Arab Free Trade Agreement (GAFTA)</td>
<td>Includes Egypt &amp; 21 member states of the Arab League: Jordan, Algeria, Tunisia, Bahrain, UAE, Djibouti, Saudi Arabia, Sudan, Syria, Somalia, Iraq, Oman, Palestine, Qatar, Kuwait, Lebanon, Morocco, Mauritania, Yemen Arab Republic, Popular Republic of Yemen, and Jamahiriya</td>
<td>N/A</td>
</tr>
<tr>
<td>7. Egypt-Turkey Free Trade Agreement</td>
<td>Includes Egypt &amp; Turkey</td>
<td>N/A</td>
</tr>
<tr>
<td>8. Egypt- MERCOSUR Agreement</td>
<td>Includes Egypt &amp; four countries: Argentina, Brazil, Paraguay, and Uruguay</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Source: GAFI, 2012a
Note: The available market sizes are most probably higher than the stated figures; however, these are the most recent stats available

**The Qualifying Industrial Zones**

In relation to the previous discussion about the country’s trade agreements, I denoted
Egypt’s strength in having a multitude of bilateral and multilateral trade treaties. In this
subsection, I will particularly elaborate on the QIZ protocol. The Qualifying Industrial Zones
are crucial and highly germane to the theme of this research. Their relevance is due to them being designated economic zones, located within or in proximity to the country’s major textile clusters, significant assembly points and concentrated areas for the industry’s companies, besides, they form the foundation of the proposed economic development model’s suggested locations and skills transfer, among other advantages. I will provide a brief assessment on the zones’ effect on the textile industry in specific and the national economy in a broader sense.

➢ Background and Political Economy

The United States has had strong economic ties with Egypt. American companies are also interested in accessing the large Egyptian market and enjoying preferential trade terms matching those provided to European and Arab states (Kotschwar & Schott, 2010, p. 45). Politically, and besides the economic benefits between both countries, the U.S. wants to promote peace in the region (Bolle et al., 2006, p. 1) particularly with Israel to the extent that Momani (2003) stated that it was even "perceived to be essential for Middle East peace” (p. 88). That given, it is clear that Egypt’s geographical location and political importance fulfill both economic and political goals of the U.S. and serve its purposes in the area. Hence, before the end of the Multifiber agreement (MFA) in 2005, the States devised the QIZ protocol to involve the parties of interest in meeting the aforementioned targets.

It is worth noting that the QIZ protocol was only singed by two countries in the MENA region, namely Egypt and Jordan, yet each had different objectives. I will not get into further details of the Jordanian-Israeli accord as it is out of the scope of this research; however, I will refer to it briefly for comparison purposes in the SWOT analysis.

➢ The Protocol’s Description, Terms and Designated Locations

Description

The QIZs are enclaves that host manufacturing activities, have well-developed infrastructure, and are located outside the Egyptian customs. Their uniqueness is based on them being operable in two countries (Egypt and Israel -- in this case), regulated by their authorities as well as that of the U.S. They notably differ from other zones as their products
are exclusively exported to the U.S. market (Bolle et al., 2006, p. 2) regardless of their quantities.

Terms

The QIZ protocol was signed in 2004 between Egypt and Israel, under the auspices of the U.S. The agreement provides both signatories preferential, quota- and-duty-free, access to the U.S. market if local content and location conditions are met. The former requires that processed and exported products to the American markets should have a minimum co-shared local content value of 35% from both Egypt and Israel and each country should contribute with at least 10.5% of the total output value. The latter condition necessitates that the production process takes place within any of the pre-approved, designated, zones by both Egypt and Israel (Hutcheson, 2006; Kotschwar & Schott, 2010; QIZ Egypt, n.d.a; QIZ Egypt, n.d.d).

Designated Locations

The U.S. president assigned the Office of the United States Trade Representative to authorize the suggested zone locations by Egypt and approved by Israel (Federal Register, 2004, pp. 78094-78095). Some criteria, such as the geographical concentration of industries, volume of current and potential exports, and the availability of the workforce, were set to help in the site selection process (Ghoneim & Awad, 2009; Refaat, 2006). Accordingly, the USTR granted its approval to three initial designated zones including Greater Cairo, Suez Canal and Alexandria (Federal Register, 2004, pp. 78094-78095), which comprised 21

Figure 10: Designated Qualifying Industrial Zones in Egypt

Source: AmCham, 2014
locations (QIZ Egypt, n.d.c) within the regions. In less than one year, the growing number of interested companies in operating in the QIZs encouraged the USTR to agree on a fourth region, namely the Central Delta region, as a designated zone (see Figure 10) and stretched out two, namely the Greater Cairo and Suez Canal zones, of the previous operating locations (Bolle et al., 2006, p. 4). By the end of 2012, qualified and registered domestic as well as international companies, from various industries, reached 910 (QIZ Egypt, n.d.b) within the zones.

➢ QIZs’ Economic Benefits

Whereas the QIZs attracted different industries, their locations were based on industrial agglomerations prominently dominant by the textile industry. Ninety-percent of the Egyptian exports to the U.S. are composed of textile products, ready-made garment, steel and iron. That implies, if the QIZ protocol was not signed and the MFA phased out in 2005, the expected consequences, then, was that Egypt would have been faced with substantial tariffs on its imports to the U.S. and a large number of the sector’s workers would have been unemployed (Ghoneim & Awad, 2009, p. 10).

The textile and ready-made garment exports from the four QIZs have been on the rise – since the inception of the protocol – even during the 2008 economic recession and followed by the country’s 2011 revolution aftermath. Although both developments adversely affected Egypt’s total exports and, accordingly, resulted in a lower volume by 0.8% compared to 2010, the sector’s exports from the designated zones took the lead and reached almost 50% of the country’s total value of exports (USTR, n.d.e). Thus, the QIZs’ aggregate outcomes have benefited the textile industry through the noticeable increase in investments, production, employment and exports—which were able to endure China’s aggressive competition (Ghoneim & Awad, 2009, p. 13).

### 7.3 The Contribution of Existing Textile Clusters to the Success of QIZs, Egypt’s Global Competitiveness in 2013 and Ongoing Economic Development Projects in 2014

The above sections pinpointed the grounds on which the QIZs’ sites were chosen within existing industry clusters, particularly textiles and ready-made garment. Porter (1998) stated
that the importance of industry agglomerations to regional economic development rely on the type of sector and the locality’s connectivity to appropriate, efficient, and well-maintained infrastructure. Their vigor lies in their peculiar set of interrelated, common practices and texture that distinguishes one region from the other. That, accordingly, magnetizes companies in industry-related activities and results in a remarkable buzz that helps in promoting the cluster’s industry, location, existing companies as well as their products and services (pp. 84-89).

As stated earlier, Egypt is diverting from its factor-driven economy. While doing so, however, the state’s export portfolio is strongly founded on its existing, quite diversified clusters -- relative to other MENA countries. The republic’s largest export clusters are hospitality and tourism, transport and logistic as well as oil and gas followed by manufacturing, mining and agriculture, among others that include textiles and apparel, as depicted above in Graph 8 (Abdallah et al., 2012, p. 2).

As clusters are characterised by the close proximity to companies of the same industry and related ones, their suppliers, buyers, and competitors besides having access to the workforce (Ali, 2012; Rosenfeld, Franz, & Heimpold, 2007) skilled in the industry, it, therefore, comes as no surprise that a major part of the QIZs success could be attributed to the present,

**Graph 8: Egypt’s Export Portfolio by Cluster, 2010**

historically qualified, textile clusters located in spatial proximity to the designated zones and that, undoubtedly, helped in forming and mushrooming new ones inside the zones. To that, Porter (1998) proclaims:

> It is not surprising, then, that many new companies grow up within an existing cluster rather than at isolated locations. New suppliers, for example, proliferate within a cluster because a concentrated customer base lowers their risks and makes it easier for them to spot market opportunities. (p. 84)

It follows, the signing of the Qualifying Industrial Zones protocol in Egypt is a “chance event,” as described by Porter (1998, p. 84) that helped in expanding the existing textile clusters yet within the zones, thus, making them an integral part of the present agglomeration. It also implies that the QIZs – as previously denoted, have neither been formed with the intention of being greenfields nor alternative methods to develop new clusters, fulfill a fundamental requirement for implementing a successful EZ program as suggested by Farole (2011, p. 264). The QIZs are, accordingly, recognized for their unique purpose, structure and potential privileges as exclusive economic zones – not only in Egypt, but also in Africa and MENA – that have a distinguished “socioeconomic brew” (Harrison, 1992, p. 479) which differentiates them from the QIZs in Jordan, its free trade agreement with the U.S. as well as other FTAs in the region – that I will briefly touch upon in the SWOT analysis. Nevertheless, despite that the zones have created their own common practices, they still vary from one another based on the formal and informal nexus between the industry firms and the zones, which shape and glue zone-firms together (Koo, 2005, p. 1487). Extending Porter’s diamond model (explained in the following subsection) to Egypt’s case indicates that the created connexions among concentrated, same-industry cluster firms and the intensity of their interactions within their zone’s environment set the stage for a productive and competitive industry and cluster (Martin & Sunley, 2003, p. 7) that consequently drive the country’s economic development locally, regionally, and, ultimately, globally.
Egypt’s national competitiveness in context of Porter’s Diamond Model

Porter’s diamond model functions as a market assessment tool for both micro and macro levels. The Harvard Business School professor emphasises the importance of the role of institutional frameworks and their constraints on firm as well as national levels. In case of the former, for instance, new market entrants can use the model in order to test the viability of entering a new market while in case of the latter national competitiveness can be measured before expanding into global markets and competing internationally. The strength of such linkages can be examined through a four-determinant blueprint. If the designed prototype demonstrates specific positive features, a firm can confidently decide to invest in the new market and, by the same token, a country is thus designated as nationally competitive and potentially capable of succeeding internationally. Figure 11 recapitulates Egypt’s national competitiveness based on Porter’s four-element (factor conditions, firm strategy and rivalry, related and supporting industries, and demand conditions) model. From the above self-explanatory illustration, and to avoid rendering superfluous any parts thereof, Egypt’s points of strengths and weaknesses have been, to a large extent, covered earlier in this research.

**Figure 11: Egypt’s National Competitiveness in Context of Porter’s Diamond Model**

![Diagram of Porter's Diamond Model](source: Abdallah et al., 2012)

**Market demand**

Egypt has an enormous local market and accessibility to sizeable foreign ones (Abdallah et
through the county’s trade agreements, as highlighted in previous sections. Such market size is an unequivocal privilege that could be exploited by both domestic and international investors by means of scaling their production activities, slashing costs and, ultimately, achieving economies of scale (Schwab, 2010, p. 8). Even though this is a favourable, critical investment theory and an applicable condition in Egypt’s case, practice is, unfortunately, divorced from theory. Instead of utilizing its huge market demand, the country concerned is, on the contrary, suffering diseconomies of scale, which puts it at a disadvantage position. On one hand, businesses are not optimizing their productivity and streamlining their processes, eventually, resulting in increasing their long-term unit average costs that inflict end user prices. On the other hand, products’ prices are not low enough to meet, particularly local, consumers’ financial capabilities. In consequence, building on the local and international markets’ demand -- given the high quality of Egyptian cotton, textile and readymade garments, among other industry-related products, and establishing economies of scale and scope\textsuperscript{12} could be realized, given the appropriate circumstances, policies and conditions. That, could, accordingly, reverse the negativity of the country’s national competitiveness in this regard -- as presented in Porter’s (1998) diamond model above. In other words, if such opportunity is seized, consumers will reach a sophistication level due to the variety of products that will be available then in the domestic market and their lower purchasing power will also be well-met because scaling up production in itself leads to lower costs as well as prices. Nevertheless, in spite of the accessibility of such target, and given the existence of the appropriate foundation for the industry of focus, policymakers and practitioners’ attention is required in supporting and accomplishing the expected gains from this initiative.

\textit{Egypt’s global competitiveness in 2013 vs. economic development in 2014}

It is, nevertheless, important to mention that Egypt’s position on the \textit{Global Competitiveness Index} (CGI) slid by 11 notches, from 107 to 118, in 2013-2014 compared to the previous year mainly due to the ongoing political and, accordingly, economic unrest

\textsuperscript{12} Economies of scope is defined by BusinessDictionary.com (n.d.) as “Reduction in long-run average and marginal costs, due to the production of similar or related goods or services where the output or provision of an item ‘A’ reduces the cost of item ‘B.’: Retrieved from http://www.businessdictionary.com/definition/economies-of-scope.html
that is witnessed since the emergence of the Arab Spring in 2011. It is equally significant to declare that in the same report, the country has remarkable scores – in spite of the enduring circumstances -- in some areas relevant to infrastructure, goods and market efficiency in terms of the number of procedures and days in establishing a business, flexibility in wage determination, financing through local equity and domestic as well as foreign market sizes (Schwab, 2013, pp. 46, 176).

In addition, based on economic theory, a country’s development is identified based on three stages of development, namely factor, efficiency, and innovation driven. While the first stage scores low on the 10-development pillars on Schwab’s (2013) report, the third stage ranks the highest. Egypt, according to Schwab (2013), is positioned in the second juncture of the development continuum represented in Figure 12. The country has shifted from the factor-driven to efficiency-driven stage. The former stage requires meeting an adequate level of public and private institutions’ functioning, infrastructure development, macroeconomic stability and basic education and health services accessibility. While maintaining the former, the latter stage – more competitive, requires progression in higher education, efficiency in goods markets, properly functioning labour markets, well-developed financial markets and technological advancement (p. 10), which Egypt has been working on.

The tallies Egypt achieved for the above benchmarks are quite relevant to this study and, in fact, are essential drivers for encouraging the promotion of this model as well as other initiatives in the country. Considering the time difference between the date the factors in that report were examined and then published versus the drastic political, followed by economic, changes that took place afterwards is particularly critical in comparing the country’s situation before and after the report’s issuance. In other words, Al-Sisi’s – took office this year on June 7, i.e., more than a year after the publication of this report -- newly crafted, aggressive economic policies, have immediate effects in addressing some chronic economic problems, such as lifting fuel subsides (preluded to in previous sections), as one of the suggested solutions to overcome economic challenges stated in the report as well as by other international financial institutions. Not only that, but also, less than two months into his first term, the recently elected president took major steps in approving economic
development initiatives that will largely impact Egypt’s short- and long-term economic stability and prosperity. Local economic development projects, like the Development Corridor initiative (see Figure 13), for instance, got the green light. The project aims at diverting the masses of people in the existing overcrowded cities and minimizing urban crawling by creating new green communities, building the appropriate infrastructure to serve the planned developments and eventually feeding the grid renewably (El-Baz, n.d.).

Another concurrent mega development initiative, which has been approved and begun its execution, is the Suez Canal Axis Development Project (see Figure 14) that was inaugurated by Al-Sisi on August 5, 2014. The development is expected to have numerous multipurpose manufacturing and services’ facilities, and offer one million jobs in various industries including chemical, technology, food, logistics, as well as research and development, among others (“Vacancies of the New Suez Canal,” trans. 2014). The plan includes the expansion of Egypt’s interoceanic canal, without affecting its current operations, increasing its traffic flow by almost double the current rate, creating new, world-class industrial zones, a technology valley, improving and establishing seaports, among many objectives, which will turn the Suez Canal region and its surrounding cities to a global trade, business, and touristic hub, not to mention the economic benefits on Egypt as a whole. The scheme is estimated to, be completed in one year vs. the previously
scheduled three years – for security reasons, yield higher revenues just above the 2.5 fold, reaching about $12 billion up from the present annual $5 billion (Farid, 2014), and, most importantly, gain the public’s confidence in Egypt’s administration which strives to develop the country’s economy and provides job opportunities for its people (Samara, 2014). The venture, supervised by the military and developed by 16 Egyptian companies, is only funded by the country’s citizens – residing locally or abroad -- and national banks. No foreign entities are entitled to contribute to the project from funding to implementation phases. As Egypt faces a huge budget deficit, and based on the decision that it is an exclusive national project, going public was viewed as the optimal choice to obtain crowdfunding – though was debatable until it was successfully accomplished on September 16, 2014. The funds were raised through selling shares, Initial Public Offerings (IPOs), for interested buyers in the Egyptian stock market (Farid, 2014; Samara, 2014). As expected by stock exchange experts, and was proven by the pent-up demand for the issued investment certificates as of its first day of release on September 5, 2014, the collection of the targeted $8.4 billion (LE 60 billion) depositor funds were magnificently met only within seven business days from the date the certificates were first offered to the public (Adham & Ibrahim, trans. 2014).

The IPOs did not only gain tremendous traction (Ayyad, 2014) among Egyptian families and companies, locally and overseas, but were also expected to boost Egyptian stocks to its highest records (Samara, 2014). To confirm the financial professionals’ forecasts, a quick comparison of how the bourse in Egypt vigorously performed year-on-year (YOO) is depicted in the Bloomberg charts. Chart 3 shows that Egyptian stocks gained more than 75% YOO, up by more than 4340 points in the 52-week range. On a shorter term, in the last six months (see Chart 4), calculations show a gush of almost 42% in Egypt’s EGX 3013 stocks (Bloomberg, 2014). Referring to the latter, I have specifically pointed to the date June 9, 2014, i.e., two days after Al-Sisi took office, to illustrate the radical improvement in the Egyptian bourse, reflected by the increased confidence level of both local and foreign

13 EGX 30 profile information is provided by Bloomberg (2014), markets, as “The EGX 30 Index is a free-float capitalisation weighted index of the 30 most highly capitalized and liquid stocks traded on the Egyptian Exchange. EGX 30 constituents are reviewed and changed twice a year (February and August). The index was developed with a base level of 1000 as of January 1st 1998 and previously named CASE 30 Index.”
investors in the country’s current and future political as well as economic stances – though in their infant stages. The aforementioned financial market accomplishments were said to position Egypt as the “world’s third-best performer” (Fam & Elyan, 2014) in 2014.

That said, Egypt does not have to start from scratch. On the contrary, the country can confidently build on its existing assets, implement the recently adopted, ongoing projects and approaches, which will optimistically thrive its economy and help in overcoming inherited economic problems. Working on the existing challenges under the new political and economic schemes, therefore, deems appropriate and is highly expected to lead to fruitful changes and boost the country’s performance within an acceptable time frame – if a similar pace is diligently pursued and, hopefully, without being interrupted by unpleasant economic or political shocks.

Micro Environmental Scan

7.4 Egyptian Cotton and Textiles: Markets, Revealed Comparative Advantage, and Sustainability

Industry’s contribution to domestic and foreign markets

- Domestic Market

As preluded to, the textiles industry is Egypt’s top employer. According to an ALEXBANK report released in 2011 (p. 5), the leading manufacturing sector had the following national impact on the economy in 2009:
Foreign Markets

Exports: Value and Distribution

Egypt is historically and globally renowned for its high-quality as well as specificity of its, particularly long staples, cotton. The country is one of the top five exporters of the agriculture product worldwide following the United States, West Africa, Uzbekistan, and Australia consecutively. Even though the country’s share of raw cotton exports is fractional if compared to its counterparts (see Figure 15), unlike other cotton trading countries, Egypt is the only country that distributes more than one-third (34.5%) of its exports to developed countries (see Figure 16), mainly the European Union, vs. 65.5% to developing ones including India, Pakistan, China, Turkey and Thailand respectively (UNCTAD, 2011).

<table>
<thead>
<tr>
<th>Economic Impact</th>
<th>Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial production</td>
<td>27%</td>
</tr>
<tr>
<td>Manufacturing labour force employment</td>
<td>25% (nearly)</td>
</tr>
<tr>
<td>Non-petroleum exports</td>
<td>15%</td>
</tr>
<tr>
<td>Total exports</td>
<td>10%</td>
</tr>
<tr>
<td>Gross domestic product</td>
<td>3%</td>
</tr>
</tbody>
</table>

Source: ALEXBANK, 2011

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**Figure 15: Top 5 Cotton Trading Countries in the world**

<table>
<thead>
<tr>
<th>Country</th>
<th>Exports (Value*000 US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.</td>
<td>$3,719,793</td>
</tr>
<tr>
<td>West Africa</td>
<td>$994,048</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>$867,692</td>
</tr>
<tr>
<td>Australia</td>
<td>$705,720</td>
</tr>
<tr>
<td>Egypt</td>
<td>$298,690</td>
</tr>
</tbody>
</table>

Source: UNCTAD, 2011
Note: Data is collected from UNCTAD, 2011
(Graph is drawn by author)

**Figure 16: Egypt’s Positioning Map, Export of Top 5 Cotton Trading Countries to Developed Countries**

Source: UNCTAD, 2011
Note: Data is collected from UNCTAD, 2011
(Graph is drawn by author)
A “Steady Growth Supplier”: Highest Category for Apparel Exports

Gereffi and Frederick (2010) asserted that Egypt is classified among the “steady growth suppliers,” the highest on a four-category scale, in exporting its readymade garments worldwide. The republic’s market share, despite small, like Pakistan’s, is maintained since the 1990s among global exporting apparel leaders including China, India, Bangladesh, Cambodia, and Vietnam. The authors declared that the subsequent categories to the above are split market, pre-MFA and past-prime suppliers. The second on the list (split market) includes countries whose clothing exports to one country or region decreased yet increased in another. The third classification (pre-MFA) consists of nations whose exports in the industry sharply declined after phasing out from the MFA, while the third category (past-prime suppliers) comprises suppliers whose market share declined since the 1990s (p. 9).

Industry Edge and Specialization: Revealed Comparative Advantage

Egypt’s revealed comparative advantage (RCA) was measured by several scholars for different industries including textiles, clothing and their related industries. Before delving into deeper details and stats in this regard, it deems appropriate to understand what RCA means for a country’s industry.

According to Balassa’s index, RCA studies existing trade patterns (Krugell & Matthee, 2009, p. 461) of the flow of a specific product’s, industry’s, exports and its share of the country’s total exports relative to the industry’s share worldwide. If a calculated number tells a RCA greater than one, then the country is relatively specialized (Krugell & Matthee, 2009, p. 461) and has an edge in that particular product, industry, across the globe. In contrast, if a country’s RCA scores less than one, then it is not specialized in that product, industry, and is also at a disadvantageous position. A country is indifferent from its world competitors if the examined industry’s RCA equals one, i.e., matches that of the industry’s global share (Kotschwar & Schott, 2010; Leromain & Orefice, 2013; Magder, 2005).

Egypt’s RCA in the industry of focus exceeded the 3.4 mark during the five-year period 2000-2005 (Kotschwar & Schott, 2010; Magder, 2005) showing that the country is highly competitive in the textiles and related industries’ exports (Magder, 2005, p. 5). Even though
Egypt’s RCA dipped since then, yet still scoring above 1 (Kotschwar & Schott, 2010, pp. 49-50), the republic managed to boost its records after 2007. Between 2008 and 2010, the Geneva-based International Trade Centre (ITC), calculated the RCA of hundreds of Egyptian products whose findings indicate that 733 Egyptian products across various industries were relatively specialized. Egypt’s RCA ranged between just above 1 for a few products vs. the majority which exceeded 1 by far. Carpets, quilted textile products, combed cotton yarn, spinning flax fiber, sewing thread and yarn viscose rayon products were among the top 50 list (Jaravaza, Mzumara, & Nyengerai, 2013, pp. 170-172). Confirming the above, and according to ITC and the United Nations Commodity Trade (COMTRADE) database, Egypt’s growth of carpets and other textile floor coverings’ exports alone increased by 6% and 9% per annum in volume and value successively, second to India (see Graph 9) within the five-year period ending 2012 (ITC, 2012, pp. 16-17).

**Graph 9:**

*Egypt’s Exports Volume and Value of Carpets & Other textile floor coverings (2007-2012)*

![Graph showing Egypt’s exports growth](image)

_Sustainability as a key industry driver: Egyptian organic cotton and green trends_

Drawing on the previous market demand segment, it is clear that something is amiss about the country’s productivity in the textile industry especially that the country has a world renowned cotton quality -- as previously mentioned. I, however, denoted that the situation could be reversed if a targeted plan is scheduled for both short- and long-term remedies that will naturally bear fruition in line with the recent economic reform moves. In this section, I will shed light on another bright side that should catalyse the process, and drive the nation’s
success in this particular industry. 

Egypt’s organic production of cotton, among other products, is not only well-known on a global scale, but also accredited in both Europe and the States. In 2014, the Organic Trade Association recognized Egypt as the ninth largest certified, organic cotton producer among 20 countries in the world. In fact, Egypt’s position among the top ten has been maintained since 2008 (Dizon, 2011). The country’s organic products are identified as biodynamic agriculture. Branded as Demeter, products are qualified to meet organic standards in various countries. It is additionally important to note that Demeter accredits only one Egyptian certifier, namely the Centre of Organic Agriculture in Egypt (COAE), located in Cairo, Egypt, in the African and Asian continents (Demeter, 2014). COAE not only acts as the sole Demeter certifier in the region, but also an accredited certifying agent from the Agriculture Marketing Service (AMS), of the United States Department of Agriculture’s National Organic Program (NOP), as of September 2010 (USDA, 2014).

That given, there are multiple opportunities for mainstreaming the green trends (Ottman, 2011, p. 22) by producing organic cotton, manufacturing new eco-brands, product lines, and increasing the local environment as well as quality awareness in the country of focus. Not only that, but also incentivizing the production of organic cotton, and its products, will help in reducing the ecological footprint by improving water efficiency, controlling the use of chemicals and pesticides which result in healthier and safer farmers and consumers, just to name a few (Everman, 2014). From a long-term perspective, Egypt’s huge potential, if unlocked and leveraged, in this trendy sector can reach higher levels by taking a larger stake in serving international markets that are following the green movement, consequently, garner higher economic gains and, ultimately, realize a world-class sustainable competitive advantage in organic cotton products.

7.5 Livability: Tourism, Retailing, Historical Resources, and Culture

The creative class and Egypt’s livability

In his book The Rise of The Creative Class, Richard Florida (2002) described employers’ -- part of his creative class -- preferences in selecting livable communities for their businesses based on their embraced values of the creative age. To that he asserted:
They [employers] favor active, participatory recreation over passive, institutionalized forms. They prefer indigenous street-level culture—a teeming blend of cafes, sidewalk musicians, and small galleries and bistros, where it is hard to draw the line between performers and spectators. They crave stimulation, not escape. They want to pack their time full of dense, high-quality, multidimensional experiences. Seldom has one of my subjects expressed a desire to get away from it all. They want to get into it all, and do it with eyes wide open.

Creative class people value active outdoor recreation very highly. They are drawn to places and communities where many outdoor activities are prevalent—both because they enjoy these activities and because their presence is seen as a signal that the place is amenable to the broader creative lifestyle. (p. 21)

As there is a general attraction to the glamorous, rich urban milieu, and according to Florida’s account of how vibrant cities are “sticky places” (Markusen, 1996, p. 293) for the creative class, Egypt has livable cities that both attract investors and delight tourists. The intensity of the country’s culture, picturesque deserts and beaches, all-year-round weather, authenticity, distinctive history, leisure tourism, entertainment industries, exceptional Nile cruises, local and global events, and exquisite culinary experience coin a unique quality of life that makes the country both vibrant and sticky.

**Retailing services reflecting the quality of life**

A multitude of retail services are offered in Egypt. Local market demand and tourism drive the industry’s development strategy. In May 2014, Euromonitor International released its *Retailing in Egypt* report, in which the market-intelligence firm declared that 2013 witnessed an “overall improvement in retailing” in Egypt despite the country’s economic and political challenges. Majid Al Futtaim\(^{14}\), for instance, recorded 20% increase in revenues in late 2012 (Euromonitor, 2014) which increased foreign investors’ confidence in the country and encouraged new market entrants, particularly of international brands including many British

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\(^{14}\) Majid Al Futtaim Group is “the leading retail and leisure pioneer in the MENA and Central Asia” (Majid Al Futtaim, n.d.).
retailers, to invest in Egypt within the same year. It is noteworthy that Al Futtaim is just one of many local and international investors’ and franchisors’ examples that have successful, operating, retail businesses in Egypt. Other examples include, yet are not limited to, the Egyptian Mansour as well as Amer Groups, Kuwaiti Al Shaya, and Saudi Olayan. Not only that, but also, relevant to this study’s focus, the apparel retail industry is among the leading retail segments — although it does not record the highest estimated rate among other industries, like vehicles (126%), pharmaceuticals (96.6%) and electronics (50.8%) – in the Egyptian market and is expected to grow by almost 28% by 2016 compared to 2011 (UK Trade & Investment, 2013).

Tourism, history and culture

The nation’s warm weather, clear water, lengthy beaches, richness of its historic monuments, activities, hotels and resorts, festivals, and entertainment are only some of the leisure and recreation features that make Egypt a sweet spot for local and international families and business tourists all-year round. The industry’s growth remarkably jumped to 17.9% in 2012 from a negative 32.4% in 2011 (United Nations World Tourism Organization [UNWTO], 2014, p. 12) – a leapfrog of almost 50% in shorter than a year. Egypt was described as “perform[ing] relatively well” in the tourism dimension, in the Country Brand Index, despite its safety issues in 2012 (FutureBrand, 2013, p. 88). In its Index, FutureBrand ranked the country 58 among the 118 examined countries and also listed Egypt among the top 10 in history, art and culture, attractions and heritage for the same year (2013, pp. 84-85, 89,106) as follows.

<table>
<thead>
<tr>
<th>Country Brand Index (2012-13)</th>
<th>Egypt’s Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>History</td>
<td>2</td>
</tr>
<tr>
<td>Art &amp; Culture</td>
<td>7</td>
</tr>
<tr>
<td>Attractions</td>
<td>9</td>
</tr>
<tr>
<td>Heritage</td>
<td>9</td>
</tr>
</tbody>
</table>

Source: FutureBrand, 2013

Even though Egypt maintained its double digit growth in the first half of 2013, the renewed political tension during the second half of year adversely impacted the overall performance
of the sector pushing international tourist arrivals to almost 18% below zero (UNWTO, 2014, p. 12).

7.6 SWOT Analysis for the Textile Industry in Egypt

The points listed earlier in various sections highlighted Egypt’s existing assets while referring to the need for immediate fixing to some challenges – pending their priorities on the government’s agenda, and providing short- and- long term solutions to other issues that hamper the optimal use of the country’s resources. Supported by the current, fast-paced economic reform approaches, all mentioned indicators, among others, show that the country is capable of enabling its business environment, boosting its investment climate and picking up its momentum to achieve a successful economic development strategy, realize growth and prosperity – if appropriate policies are set, implemented, monitored, adjusted and maintained.

Building on the above, Table 7 illustrates a summation of the positive internal and external factors while overviewing the adverse ones to the textile industry in the country of concern.

**Table 7: SWOT Analysis for the Textile Industry in Egypt**

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fast-paced economic reforms</td>
<td>Political and economic instability</td>
</tr>
<tr>
<td>Organic growth through crowdfunding</td>
<td>Budget deficit &amp; lack of government financial resources</td>
</tr>
<tr>
<td>Geographical location</td>
<td>Skills upgrade</td>
</tr>
<tr>
<td>Cheap factor endowment</td>
<td></td>
</tr>
<tr>
<td>Infrastructure</td>
<td></td>
</tr>
<tr>
<td>Huge market size &amp; local demand</td>
<td></td>
</tr>
<tr>
<td>Young &amp; abundant workforce</td>
<td></td>
</tr>
<tr>
<td>Existing textile clusters</td>
<td></td>
</tr>
<tr>
<td>Industry competitive advantage</td>
<td></td>
</tr>
<tr>
<td>Organic cotton</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accessibility to considerable market sizes</td>
<td>Maintaining security measures</td>
</tr>
<tr>
<td>Trade hub</td>
<td>Technology gap</td>
</tr>
<tr>
<td>Provision-free preferential trade agreements</td>
<td>Future competition with FTA countries in MENA</td>
</tr>
<tr>
<td>Eco-brands’ production</td>
<td>Competing with high quality of international brands</td>
</tr>
<tr>
<td>High quality and specificity of cotton</td>
<td></td>
</tr>
<tr>
<td>Capitalizing on new development projects: The Suez Canal Axis development project</td>
<td></td>
</tr>
<tr>
<td>Tourism</td>
<td></td>
</tr>
<tr>
<td>Existing local and international events</td>
<td></td>
</tr>
<tr>
<td>Room for growth in various industries</td>
<td></td>
</tr>
<tr>
<td>Gaining international confidence, support &amp; funds</td>
<td></td>
</tr>
</tbody>
</table>

Source: Adapted from Gliffy, 2014
To avoid reiterating Egypt’s SWOT elements – as they have been previously clarified in detail, the only addition in this section, however, that I will draw the attention to is the potential threat that Egypt might face if the present provisional application of FTAs in MENA, signed between the U.S. and each of Bahrain, Jordan, Oman, and Morocco (USTR, n.d.a, n.d.b, n.d.c, n.d.f), qualifies to be removed within the upcoming period, specifically for Jordan and Morocco. If that happens, the treaties can then allow for unconditional free trade among its parties.

Free trade agreements, however, do not always comply with what the name implies. In other words, they do not permit the free movement of all goods across their signing members’ borders due to protection measures, such as quota or rule of origin restrictions, applied by one or more of the treaty’s signatories. A perfect example, though departing from the region of focus, of this is the North American Free Trade Agreement (NAFTA), which is in effect since 1994 between Canada, U.S. and Mexico. Industry Canada (2011) indicated that NAFTA includes some requirements on multiple issues related to “competition policy, cultural industries and cross-border trade.” Although Canada enjoys a competitive textile industry as well as the U.S., the country has to comply by the rules of origin that dictate a high percentage of local content to be included in some highly protected industries, like textile and clothing. A World Bank paper specified:

The North American Free Trade Agreement (NAFTA) will not lead to free trade in all goods between Mexico, Canada and the United States. Trade barriers that already exist in a number of "sensitive" sectors will most probably be maintained through restrictive arrangements under the NAFTA. A particular case is the textiles and clothing sector, which has long enjoyed special protection in the United States and Canada, at levels significantly above the average. Mexico is one of approximately 40 countries whose exports of textiles and apparel face quota barriers in the United States market. Maintaining quotas on textiles and clothing exports from Mexico will be inconsistent with NAFTA principles; some alternative arrangement will be required. This will involve a careful definition of the trade that qualifies for barrier-free treatment. Rules of origin, designed to ensure a high proportion of domestic (within NAFTA) content for products traded freely across NAFTA borders, will be the principal instrument for
identifying eligible exports. If NAFTA content is insufficient, exports will be treated as if they originate outside the region, and be subject to tariffs and/or quotas. (Bannister & Low, 1992, p. 1)

Despite the above, provision-free FTAs – if apply – can occasionally, and under particular circumstances, have no effect on a competitor economy if the latter has stronger factors that offset the benefits of such agreements. They can, however, and unexpectedly, play out well and turn into privileges for some countries like Egypt. Meaning, in spite of the threat MENA FTAs might pose in the near future on the country concerned, from the illustrated NAFTA excerpt above and pertinent to the competitiveness of the Egyptian textile industry along with the implemented quota- and duty-free QIZ protocol, it is highly probable that the country’s currently dormant competitors might not – by default of the FTA provisions – rise to the occasion and compete with the country’s textile industry. Another scenario could be, if trade restrictions on the textile industry are lifted, Egypt might face fierce competition only from Jordan and Morocco because neither Oman nor Bahrain has sector competitiveness as the case of the former. In addition, the latter are labour-importing countries (O’Sullivan, Rey, & Mendez, 2011, p. 2), which indicates that even if they have some textile production, the absence of workforce expertise will be a continuous challenge for the sector concerned. Besides, one of the two potential competitors, namely Jordan, has labor rights issues with foreign workers that aroused in the country’s QIZ apparel factories as early as its first year of the protocol’s implementation in 1998. Even though both the U.S. and Jordan are working with the International Labor Organization to improve such conditions (USTR, n.d.b), lack of abundance and skills in the labour-intensive industry were the main reasons that drove Jordan to import foreign labour to the country. As a result, there should not be immediate or even future threats on Egypt’s competitive industry. Most likely MENA FTAs’ countries, if qualify to export all goods, barrier-free to the U.S. market, will either slightly impede Egypt-U.S. trade or have no impact at all in this particular industry. It follows, Egypt will retain its position as the region’s trade hub in the textile industry. Nevertheless, that does not mean that the republic should not develop a competition strategy. In contrast, the state should still take precautionary measures whose action plan should be ready for implementation if the
country is situated in a competitive position with other MENA countries, particularly Jordan and Morocco, or those outside the region.

Last but not least, considering competition from outside MENA will bring trivial effects, if any, on Egypt’s textile products because such competition has already existed before and after the MFA, i.e., for almost four decades, and during the global economic meltdown. Even though countries like China, and India, among others, fiercely compete on international scales, Egypt still maintains its position worldwide due its cotton quality and specificity – as empirically suggested earlier.

The above analysis does not, by any means, suggest that the country should slow down in advancing the industry, but it is just to say that Egypt still has a grace period to work out a comprehensive plan, within its overarching one that encompasses various political and economic issues, which benefits both the industry and the economy as a whole. One way to do that is identified by Mehta (2000), which explains matching strengths and opportunities to create a competitive advantage while converting weaknesses and threats to opportunities to add extra benefits or, at least, minimize risks (as cited in “National Future Farmers,” n.d., p. 1). Thus, a holistic integrated business process should be set in place in order to increase the national productivity across the supply chain. This is central to the industry’s improvement on both national and international levels. It is expected that excess in production will always be met with enough, if not immediate, demand on both scales, given its appropriateness to different market tastes as well as prices and whose value is highly perceived by consumers.
Chapter 8

Revitalizing Egypt’s Economic Zones: A Local Economic Development Model

8.1 Development Theories and Their Role in This Model

Development theories existed decades ago and collectively comprise various approaches that count on different disciplines ranging between pure social elements to economic measures. Each theory has its strengths and limitations, proponents and opponents and achieved variable degrees of successes and failures at different periods of time within various geographical locations, yet none of them is exclusively applied to the economic development model proposed in this research except for the participatory development approach. There is no doubt that the seminal work of all models plays an important role in forming many models including the aforementioned; however, an economic development process is not one-size-fits-all. As scholars and practitioners in the field have realized that intertwining theory and practice is not always possible, yet, rather, sometimes, fall on the opposite ends of the same spectrum, thus, shades of different theories might blend in the designed model among other modifications that might deem necessary during the implementation phase.

Given that, the presented model is neither a replica of any other nor is it only tailored to meet the immediate, short-term needs of the country concerned based on its contemporary political and economic situation -- adequately explained in earlier sections, but it is also crafted to realize long-term and sustainable gains for a prominent developing country that desires to regain its historical economic sustainability as well as its regional and global political salience by seeking organic economic growth and prosperity for its people.

8.2 Combining Zones and Clusters: Their Power and Dynamics

Many of the economic zones’ pros and cons are sufficiently described earlier; nevertheless, at this point it is enough to emphasize the importance of the zones in increasing manufacturing competitiveness by facilitating daunting procedures zone investors might experience outside them. Hence, encouraging the implementation of just-in-time strategies that reduce wasteful inventory, minimize costs, increase productivity and return on investment are some of the invaluable benefits of EZs. They can, therefore, act as “a conduit
for transition to a stable and open economy” as stated by Sinclair\(^\text{15}\) (as cited in FIAS, 2008, p. 44), and which is relevant to the core of this model. Adding economic stability to solidly founded, existing clusters – though require improvements – within the country’s economic zones can transform the localities to dynamic powerhouses for operating as well as new businesses in the Egyptian textile industry. Their power is extended from their combined, robust features that belong to their being zones and clusters including, yet not limited to, lower operating and overhead costs, arm’s-length accessibility to suppliers, doing business techniques and support services, proximity to markets, and innovation, among others, that lead to higher flexibility, productivity, efficiency and competitiveness on the firm, local (FIAS, 2008; Harrison, 1992; Porter, 1998; Saxenian, 1990), regional and eventually global levels resulting in the “localization of the world economy” as termed by Martin and Sunley (2003, p. 4).

8.3 Objectives of the Proposed Model

Even though Egypt is not a late comer to economic zones, rather, to a far extent, a successful country within MENA in this regard, the republic’s EZs is the less travelled road by its policymakers and economic developers – at least, before being part of the recent, ongoing restructuring of the economic development schemes under Egypt’s new administration of President Al-Sisi. Thus, a pilot project aiming at reinvigorating the country’s textile industry within its economic zones can certainly allow for testing economic reform policies, tapping new sources of capital and opportunities for diversification that, ultimately, foster economic growth within the chosen localities, provide the necessary policy feedback during the upcoming transitional period and set the stage for crafting and applying successful policies across all sectors on the national level.

The purpose of this model is, therefore, to create a new concept to complement and capitalize on the industry’s strengths within the republic’s zones. The designed proposal is, ambitiously set to be accomplished by the year 2020, based on building a parallel system through a one-stop-shop, while updating current ones, leveraging partnerships with local,

regional and international communities, exploiting present capacities however building new ones, administered by a public-private partnership (PPP). The PPP is to be established as an independent, executive body that helps generating both immediate and effective results in upgrading and promoting the textile industry to an international level within a local environment. Novel aspirations and innovativeness are expected to arouse from the involvement of all stakeholders starting from industry businesses and workers within and outside the zones, and reaching academic and non-academic institutions, policymakers, practitioners and end consumers as well. Zone-specific goals should be oriented to optimally utilize local endowments – as they differ in each region within the industry, and tailor zone programs according to the particular strengths and opportunities available to each drawing on previous, successful and unsuccessful, experiences locally, regionally and internationally. It is equally important to assess individual zone industry-cluster and its, exclusively, entrenched socioeconomic texture that identifies its unique formation, culture (Harrison, 1992; Porter, 1998; Saxenian, 1990), development trajectories and characteristics to address ongoing challenges as they arise and realize better short- and long-term gains. It goes without saying that the aforementioned should be in sync with Egypt’s overarching economic reform policies and political directions.

8.4 Model Components in Chronological Order

Proposed pilot project locations: Proximity to QIZs

As discussed earlier, the current, four regional QIZs’ locations (see Figure 17) are designated according to pre-set criteria as well as site selection processes by the Egyptian government followed by the consent of Israel and the authorization of the U.S. Besides, the manufacturing enclaves have to comply with location and content regulations while their finished products are exclusively exported to the American market. In other words, QIZs’ locations and activities are highly politicized not only by national, but also by international forces that set limitations on changing their functions or purposes to serve the country’s restructured economic targets or, at least, fully exploit its valuable resources and, ultimately, follow its new political directions. An expected consequence is that any zone modification departing from the protocol’s terms – including those suggested in this model -- will be most
likely, if not certainly, met with rejections from either one, or both, of the non-Egyptian parties.

I, therefore, propose creating new zones located in close proximity to the QIZs (see Figure 18) – acting as separate expansions to the current ones, yet under the sole endorsement of the Egyptian government – to take the full advantage of the unique privileges of the QIZs as well as other asset optimization that cannot be used under the QIZ protocol. For instance, subcontracting, an activity permitted by the protocol, and outsourcing production to the adjacent zones will help meeting the increasing American companies’ demand for the, low-cost, zones’ products while benefiting from the lower transportation costs and easiness of workers mobility to supervise as well as train the subcontractors’ teams and staff in the new zones. An ensuing consequence of the cost-effective methods is increasing productivity level as well as profitability, not to mention the timeless skill and technology transfer to the new locations.

Furthermore, capitalizing on the zones’ geographical locations – which already operate near major water and various transportation gateways, other preferential trade agreements, and human capital, among other assets – listed in previous sections, without the interference of foreign parties will eliminate opportunity costs – forgone due to the QIZs’ restrictions – and result in multiplying the gains from the zones for the industry concerned as well as others interested to join and benefit from the zones’ facilities and services. Leveraging the country’s assets will, hence, result in strengthening the weak backward linkages to the local
economy, creating new ones, exploiting forward linkages, and upgrading technological as well as human skills which accordingly revitalize the industry within the localities and promote the economy on local, national, regional and global scales.

**A compelling value proposition**

In assessing market opportunities, a compelling value proposition is essential in illustrating the perceived value that a customer expects to experience from an offered product or service. As it is crucial to identify the unique value a product or service offers to prospective customers, classify the latter’s segment, customize the offering to meet clienteles’ specific needs, and, most importantly, deliver the promised value, it is equally important to minimize the organization’s risks and costs and maximize its gains (Barnes, Blake, & Pinder, 2009, p. 28).

**Figure 19: Egypt’s Value Proposition for the Revitalized Zones**

Source: Adapted from Fleming, 2012
Figure 19 illustrates a step-by-step value proposition for the proposed pilot project. It depicts a five-step value proposition, related actions and resulting benefits. Nevertheless, it is important to note that moving up the ladder should only happen when each phase is well mastered. That explained, it deems appropriate to elaborate on the package included within the zones’ value proposition that entices local and foreign investors among other stakeholders (referred to in the following subsections) involved in this project.

This proposition offers distinctive values and clearly portrays the unique selling points that Egypt can offer to its existing and potential investors. In context of the existing assets the country already possesses, like its strategic location, availability of raw material, abundance of skilled labour in the industry, low-cost factor endowments, low corporate and personal income taxes, and the provision-free accessibility to the largest world markets, among others, it should be borne in mind that such diversity in the country’s beneficial doing-business resources could be complemented by other advantages that will increase the locations’ competitiveness and attractiveness. One particular incentive that I would stress to be provided in addition to the above -- which I find highly valued in this regard -- is to offer free and development-ready land to interested domestic and foreign investors. Though sounds a costly incentive that just chases down smokestacks, in contrast to many perceptions, this incentive guarantees anchor investments rather than footloose ones. In other words, if the Egyptian government provides free, development-ready land for potential zone investors, the latter will have to build their projects and, thus, add value to the free-offered land. In the worst case, if, later, the business deems unprofitable or, for some reason, wishes to relocate or terminate its operations, the property will bring higher value to the previously offered free land. Additionally, such incentive – alluring to new market or zone entrants – creates a significant clawback to the chosen location especially within the ongoing bidding wars, of tempting investment incentives, offered by other states across the world.

**Target markets and audience**

As the value proposition is designed to create value to customers, it is important to identify the target market and audience to be addressed and approached for the purpose of this model. Fischer (2013) stated that “99% of growth” of a country’s investments is generated from existing businesses and local entrepreneurs. He specified (see Chart 5) that the first
category composes 76% while the second forms 9% and the third, namely business attraction, comprises 15% of capital investments (pp. 5, 40).

Chart 5: Target Markets and Audiences for Capital Investments for the Egyptian Zones

Building on Fischer’s audience segmentation, and based on the fact that Egypt has more than 3200 textile factories as of 2010 (ALEXBANK, 2011, p. 5), 85% of potential zone occupiers can be generated from within the country concerned. This will undoubtedly form a solid contribution of domestic firms in the organic growth of the economy, which is aimed by this model, and will consequently build stronger backward linkages as explained earlier.

Following the lookout for local investors, and counting on the success of Arab investments in Egypt – as previously referred to, regional, particularly Arab, investors will be sought after. Achieving successful investment attraction from the above markets along with their business success and the buzz created by the new features and services offered in the zones, foreign investors – who are closely following the developments in Egypt and show high interest in investing in the country as indicated beforehand by the PwC research results – will be targeted for expanding their presence in the newly featured, revitalized Egyptian zones.

In spite of the importance of investors’, whether local, regional or international, role in generating businesses and job opportunities, among other multiplier effects, for Egypt’s economy, it is of equal importance to identify and reach out for all stakeholders involved in
this project as their collaborative effort is the engine behind the success of this pilot project, which will be highlighted in the following part.

*Stakeholders from bottom-up: Participatory development*

In line with the current streamlining of Egypt’s economic and political structures, the country is trying to rapidly restore its imbalances and catch up with the missed opportunities of the aftermath of the Arab Spring through grassroots’ efforts. The lately elected government is engaging younger generations to recognize their values, learn about their perceptions, and utilize their fresh minds in creating new ideas for various issues while bringing back talented Egyptian scientists abroad to circulate their knowledge, share their expertise, and participate in the development and commercialization of its economic and political endeavours. The main, present, focus is creating an original economic and political balance by supporting home grown projects to serve domestic, as well as attract foreign, businesses and involving the civic society in political decisions to set the country for the global stage.

Much of the model offered here is based on reconnecting existing intangible, yet invaluable, assets represented by zone communities, social capital and institutions that fuel economic growth and well-being. Stressing the importance of civic engagement, as a drive to a democratic process and polycentrism, is a fundamental political requirement in formulating a sound political economy of the country. The ensuing result is the creation of innovation springs for the industry concerned and the generation of critical sources of information, databanks, and think tanks that work on the challenges and provide recommendations, voiced through their selected liaisons, to the central authority. The latter, accordingly, acts on further complex and daunting issues related to encompassing the micro zone plans into the macro national ones while strengthening foreign relations and creating global linkages for promoting the country’s economic accomplishments and growth. All parties, thus, form the primary stakeholders of the project within their own mandates and capacities.
The Role of Social Capital, Civic Engagement, and Good Governance

This local initiative has yet to start from, bottom-up, i.e., the Egyptian public, based on its social capital and civic engagement within its communities. While social cohesion in a particular society positively correlates to economic development and prosperity (World Bank, 2011b), it is the civic engagement that influences a country’s political development. According to the American Psychological Association ([APA], 2014), the latter is defined as “individual and collective actions designed to identify and address issues of public concern.” Being involved in resolving community affairs rather than only targeting economic benefits (Safford, 2004, pp. 3-4), is a crucial feature that identifies civic networks. Their actions, thus, promote good governance through devolving centralized power and building bridges between individuals, their governments and institutions locally as well as regionally (Wolfe, 2010, p. 143). Civic capital, especially within smaller localities, can largely contribute to seize the dynamic forces behind building and sustaining effective regional governance networks (Nelles, 2009, p. iii).

Steps Taken: Blurring the Public-Private Boundaries

It is possible for a dream to come true, but not overnight. Egypt’s president, however, has already initiated some moves towards blurring public-private boundaries and encouraging civic engagement. Some examples include the formation of the advisory council of scientists and experts that “intentionally” comprise a, national graduate, group (Ahram Online, 2014b) of prominent scientists in various fields, such as Noble Laureate Ahmed Zewail, former National Aeronautics and Space Administration (NASA) geologist Farouk El-Baz and cardiac surgeon Magdi Yacoub, in order to provide their insights on strategic national projects among other country-related issues (Aswat Masriya, 2014). Additionally, the Egyptian president announced 10-board members of the president’s council for education and scientific research. Biographies of the selected members were published in the news in October 2014 comprising a group of accredited Egyptian professors from various national universities as well as the American University in Cairo, whose academic backgrounds, achievements and pragmatic methods, scientific contributions are globally recognized and applied in their respective fields (Hassan, trans. 2014). In his speech addressed to Egypt’s
youth at Cairo University, Al-Sisi announced that Egyptian youth will form 50% of the presidency’s councils (Ahram Online, 2014b). He also asked political parties to encourage the young generation to take roles at work and in politics while emphasizing the importance of prudently following “national and rational” logic in choosing their political representatives in the Egyptian parliament (Ahram Online, 2014a).

- **Innovation Networks: Combining Knowledge with Value Creation Strategies**

Following the aforementioned, the creation of innovation networks (see Figure 20) will come as a normal consequence. Such linkages will be formed through collaborative internal and external sources resulting in expanding the innovation capacity, attaining a sustainable competitive advantage and guaranteeing a successful merging of both explicit, codified and acquired, tacit knowledge of scholars and industry-related practitioners, among other sources of innovation. Chen (2008) suggested some value creation strategies that propel innovation.

**Figure 20: An Integrated Knowledge-Base Innovation Network Model for Egypt’s Textile Zone-Clusters**

<table>
<thead>
<tr>
<th>Open-Source (External sources)</th>
<th>Innovation Network</th>
<th>Innovation Capacity</th>
<th>Value Creation</th>
<th>Knowledge Diffusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovation Network</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Adapted from Chen, 2008

capacity, such as partnerships with universities and research centres, which are vital in providing latest research and development (R&D) findings and supplying talented industry personnel. Likewise, alliances among textile clusters within and across zones minimizes costs, fills in industry lacunas and offers breakthroughs in doing business. Similarly, valuing and engaging customers while involving other community members including local firms, employees, suppliers, and distributors, is essential in understanding existing vs. lacking skills as well as identifying current needs and potentials within the locality while providing,
in many incidents, rational – even if partial – solutions that help in overcoming inherited issues that might hinder the development process within their corresponding regions.

This desired level of participation, however, requires experts from the above tiers as well as policy leaders to facilitate pipelining collaborative inputs horizontally across all levels and disseminate information and outputs, both horizontally and vertically within the country’s hierarchy, to all involved parties through the appropriate and continuous networking events and recognized communication channels.

It is important to note that this bottom-up, participatory development, approach should incessantly be maintained pre- and post the development process to ensure that necessary monitoring, assessment, policy adjustments and implementation are encountered to align local needs with national goals. An ensuing result is growing the Egyptian textile clusters – for the purpose of this model, yet can likely be instigated (following the appropriate tunings) in other industries as well as localities -- within Egypt’s economic zones that can then act as local, regional and global “hot-spots” (Bathelt, Malmberg, & Maskell, 2004, p. 33).

➢ Current Challenges

It is undeniable that Egypt is lagging behind in some of the aforementioned efforts and requires some time as well as diligent endeavours to set the stage for productive collaboration between community members and educational bodies as well as non-educational resources, consequently, delaying the formation of its innovation networks and building their capacities. Some examples referred to earlier rise from the lack of global demand that leads to lower supplier quality, the inactive role of domestic firms in the cluster’s training services provided by the IMC (Abdallah et al., 2012, pp. 16, 21) and, to a far extent, the ineffective cooperation between the textile industry and universities and research institutes -- despite their strength within other newer clusters, like those related to information technology (Ali, 2012, p. 245). That, however, does not mean that progress is unforeseen in the near future. Contrary to that perception, the current progress – highlighted earlier -- provides a stronger beam of light and higher hopes that the crippled developments in such areas can be fixed and reverse the preceding outcomes.
To that end, the said strategy, if properly applied, allows all stakeholders on both individual and institutional levels, whether public, private or non-governmental, to get involved in the decision-making process and contribute with their respective inputs on how to efficiently utilize the country’s resources, its human capacities and accomplish a joint collaborative project, first, locally, and, later, nationally as well as internationally.

**A Public-private partnership venture: Connect, Prospect, Invest**

Ries (n.d.) accentuated the importance of creating a “tailored management process” that help eliminating the uncertainties faced by many startups. Building on the same concept and as hinted previously, I propose the establishment of a public-private partnership venture. The not-for-profit organization, a building block for a successful public-private cooperation and promotion for effective global partnerships, will act as the executive body for this pilot project whose mantra is *connect, prospect, invest*. The corporation should be given and exercise its full local zone autonomy, under the auspices of the country’s supreme administration and follow its overarching economic goals, established on a par with world-class economic development organizations, whose mandate is investment attraction and trade promotion. Its main focus should be promoting the subnational project, i.e., the revitalized zones, on local, regional and international levels.

Kaplan and Norton (2004) stated that an organization can create value to its customers if a strategy map is designed to define strategic goals of the organization based on the interrelated, cause-and-effect, roles of its departments and their respective parts in attaining specific targets and building on them in the next level (p. 9).

To achieve its target, the PPP will work within its five distinct, yet complementary departments. Objectives of the latter will be separate but interrelated in order to achieve the expected outcomes. Figure 21 presents the main five departments operating under the chief executive officer (CEO), while the latter’s role as well as that of each individual department is briefly pinpointed below.

**Chief executive officer**

The CEO’s main goal is to ensure the conformity of all departments’ functions and targets.
A critical part of the position holder’s role is to ensure that all divisions and personnel are working in synergy to reach the ultimate aim of environmentally sustainable, world-class Egyptian zones by 2020. To that end, the c-level executive should have a strong accessibility and two-way communication channel to the president, his team, related ministries and other zone-related authorities. It is imperative that the CEO should have a high level of expertise and knowledge in local and international matters. Besides, the role entails supervising departments’ objectives, monitoring their implementation, evaluating outcomes and making sure that amendments are made, if needed, to meet the pre-set timeline and deliverables by the targeted date.

**Figure 21: PPP Organization Chart of the Egyptian Revitalized Zone Departments & Roles**

Source: Illustrated by author

**Business retention and expansion (BR+E) department**

The BR&E is an essential department that should take the lead role in connecting with current zone investors, whether new entrants or growing ones, to establish and nurture solid relationships with them. Such businesses’, form a fundamental part of the pilot project’s stakeholders, feedback will help in understanding the current pros and cons, ins and outs, of the industry within the zones. Their recommendations for practical or policy changes will be invaluable from practitioners’ perspective and should be well-taken into designing and adjusting the broader plans. Thus, face-to-face meetings, questionnaires, and follow-up calls, are essential tools in creating the “high-touch” impact that, Fisher (2013) labelled, could help
in creating solutions, working on challenges while avoiding others, and providing quality services (p. 43) within the current zones -- if applicable under the QIZ protocol – and certainly in the prospective EZs as well.

**Business development department**

In congruence with the BR&E efforts, the business development division should be working on attracting new domestic textile investors within Egypt and help them in establishing their presence in the zones. The department should similarly attract regional and foreign investors across the globe not only in the textile industry, but also in other industry-related ones that fit into the growing-cluster. Promoting textile exports is a critical role of this department. Exploiting Egypt’s PTAs, generating import leads, seeking trade deals and distribution channels both domestically and internationally are indispensable tasks of this department.

**Corporate affairs and investor relations department**

This department is mainly responsible for creating local and global alliances, partnerships and industry networks through ambassador and outreach programs, universities, research centres and other economic institutions, think tanks, chambers of commerce, trade associations, diplomatic missions, as well as commercial offices to promote the revitalized zones, features, and enhanced trade capabilities while seeking their knowledge and support in improving R&D, quality, trade opportunities, and other means of financial and non-financial cooperation.

**Economic development department**

The economic development department should include economic development officers, researchers and project managers who mainly act as liaisons between investors and all government authorities, including ministries, municipalities, and governorates, among other institutions that cross various domains like business registration, immigration, labour issues, human resources, financing, taxation, zoning and customs. Their role is to respond to business requests for information, update and present the value propositions, write proposals, research industry trends and related services, compile data, prepare reports, provide smooth transition among the project tasks while meeting clients’ requests, develop
the necessary project plans to ensure seamless implementation of the project’s phases, provide business workshops and establish business incubators to assist zone investors or potential ones.

Marketing department

The marketing department acts as the concert director which orchestrates among all departments by critically listening to departments’ needs, customers’ requests, clearly preparing and executing marketing plans, sending consistent messages to customers through the appropriate channels and publicizing the efforts done as well as the stories of success in different publications, digital and conventional media, press conferences and networking events.

➢ Public and Private Sectors: Leveraging Synergies and Capabilities

The above subsection portrayed the vital role of the PPP and its departments in promoting the revitalized zones. In this part (see Table 8), I will shed some light on how the executive body can combine its public and private forces to leverage both sectors’ synergies and capabilities within their respective mandates.

<table>
<thead>
<tr>
<th>Public Sector</th>
<th>Private Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expediting doing-business procedures, registration checks &amp; approvals</td>
<td>Providing industry-related practical solutions</td>
</tr>
<tr>
<td>Matchmaking between local and international businesses</td>
<td>Coaching &amp; mentoring new businesses and entrepreneurs</td>
</tr>
<tr>
<td>Offering Free and development-ready land</td>
<td>Leveraging zone enhanced programs through its services, marketing material, websites and networks</td>
</tr>
<tr>
<td>Cross-agency coordination</td>
<td>Funding new projects</td>
</tr>
<tr>
<td>Advertising the project in state-owned publications. Looking out for and publishing trade opportunities</td>
<td>Providing scholarships, like the Sawiris Foundation for Social Development Scholarship (building on its corporate social responsibility)</td>
</tr>
<tr>
<td>Granting approvals for the use of public-owned facilities, conference centres and prestigious buildings (like Smart Village)</td>
<td>Fundraising through local and international sources</td>
</tr>
</tbody>
</table>
Promoting zones’ activities through diplomatic, investment attraction and door knocking missions & Egyptian commercial services (ECS) offices abroad

Acting as ambassadors to the pilot project

Creating a response unit to immediately work on zone investors’ challenges

Building and leveraging their professional network to create impact

Source: Author

**Funding: Investment, trade models and resetting foreign aid priorities**

➤ **Financial Burden and Tentative Streams of Revenue**

There is no need to reiterate the financial difficulties the country is going through not only due to the plunge in its revenues after the 2011 revolution, but also due to the indirect impact of the latest global economic meltdown. Therefore, the government will not be able to take any further financial burdens to restructure its economy given that its current proceeds are already eaten up by higher priority issues on its packed agenda. That said, and to avoid financial failures resulting from substantial capital investments in zones’ infrastructure or below cost-recovery operating rates or subsidized inputs of production (FIAS, 2008, pp. 38-39) – any or all combined, the project needs to be financed by private sector investors whether Egyptians, Arabs or international donors.

It is noteworthy that the IPOs of the Suez Canal Axis Development project is a recent financing model that was met with unprecedented thoughtfulness and success, not to mention that it was remarkably accomplished in an exemplary period of time. Although the project is meant to be funded and executed by national efforts, due to security reasons, it ignited confidence in the country’s public that the administration is moving forward, in the right direction with national projects while using unconventional financing models -- to the country -- that could be repeated if needed in future schemes. Nevertheless, unless otherwise required, further national developments should not necessarily rely on local funds – similar to this particular project -- as the only means of crowdfunding.

FIAS (2008) lists major sources of revenue for EZs (pp. 38-39), whose most of them will not play a significant role in generating income to the country concerned while others should be modified to become significant streams of revenue and capture other economic
benefits on both the short and long terms. For instance, tax holidays can be provided as incentives, from my point of view, only for new SME zone comers to encourage them for increasing their production and allowing them for a grace period to reinvest their retained earnings into larger facilities, hiring more workers, among other activities that help in growing their businesses. Otherwise, Egypt generally charges low corporate and personal taxes -- as denoted earlier, which could be easily paid by mega projects. Revenues generated from land sales, for example, is not a valid option in this model, as the land will not be offered for sale. However, proceeds generated from concession agreements will be applicable in this case. In fact, they will be the main source of income from the zones.

Import duties from machinery, raw material or semi-finished products that do not exist in the country of focus and are used for manufacturing, made in Egypt, merchandise sold into the domestic market will not be applied -- as per my recommendation, and based on documented research presented earlier -- in order to motivate local and foreign investors to access the huge domestic market while raising the bar for local supplies and accordingly build backward linkages, provide room for competition of global quality goods with local inputs and competitive prices, thus, increasing consumers’ taste and pushing domestic firms across the supply chain to meet the higher standard products.

➢ Private Sector Concessions and BOT: Main Source of Income

That said, the main source of income to the zone authorities will be through long-term concessions\(^{16}\) for private companies, whether domestic or foreign, to build and operate zone facilities, such as commercial buildings, ports, power plants, among others, that are related to the zone developments (FIAS, 2008, p. 39) and services. The build-operate-transfer (BOT) system (see Chart 6) is ideal in this case to finance capital investments without incurring expenses on the government’s budget, reap the benefits while guaranteeing the transfer of the project and its built assets to the country by the end of the concession period.

\(^{16}\) The World Bank’s Public-Private Partnership in Infrastructure Resource Center (PPP IRC) explains “A Concession gives an operator the long term right to use all utility assets conferred on the operator, including responsibility for all operation and investment. Asset ownership remains with the authority. Assets revert to the authority at the end of the concession period, including assets purchased by the operator. In a concession the operator typically obtains its revenues directly from the consumer and so it has a direct relationship with the consumer. A concession covers an entire infrastructure system (so may include the operator taking over existing assets as well as building and operating new assets)” (2014b).
Some examples of developed and developing countries that successfully adopted this financing model through their PPPs include India, Nepal, China, UK, France, Australia, Portugal and Germany (Gajurel, 2013), among others.

➢ Trade Funds: Mitigating Risk and Increasing Trade Partners’ Confidence

Not only that, but also, in order to have a comprehensive bankrolling model that covers the zones’ required infrastructure investments and promote trade activities, I view that another efficient and complementary source of trade funding model is to be established in parallel to the concessions, BOT contractual system. Instituting a trade fund, for instance, like Zimbabwe’s Economic Trade Revival Fund (ZETREF), supported by the African Export-Import Bank (Afrexim Bank) as well as local commercial banks (SADC, 2013) is essential in mitigating trade risks and increasing confidence in the country’s existing and potential trading partners. While the former dedicates long-term lines of credit, reaching $100 million – that quite suits the amounts of funds -- for capital investments, the acquisition of capital goods, raw material, and machinery necessary, specifically, for industry startups, the latter should play their role in securing the necessary collateral and setting appropriate safeguards to ensure that the funds are put in place and avoid speculative predispositions (SADC, 2013).
Foreign Aid: Re-distribution of Aid Priorities

Last but not least, Egypt is a foreign aid recipient from many Arab and non-Arab countries. The U.S., European Union (EU) institutions, France and Japan are on top of the country’s official donor assistance (ODA) list presented in Chart 7. It is noteworthy, however, that each country, with the exception of a few – particularly Arab countries, conditionally contributes to certain sectors. That said, and in order to fully exploit such contributed sums, I believe that Egypt needs to reshuffle the priorities of its aid disbursements, if untied to particular projects by donor countries or negotiate such possibility – if needed, based on its restructured economic plans. The OECD’s (n.d.) aid statistics show that the EU’s contributions to Egypt’s economic infrastructure and production sectors are way higher than those of the U.S. (see Charts 8). While the former donates almost $371 million, and $311 million for both sectors consecutively, the latter provides almost 26% and 6% of the EU’s bestowed amounts for the same areas respectively. The U.S., however, offers most of its non-military aid (that has been declining for more than two decades vs. its military assistance (Momani, 2003; Sowa, 2013) to the country’s social infrastructure, which is more than twice than that of the EU.

Source: OECD, n.d.
**Government approvals**

The aforementioned project and its components should be presented to the Egyptian authorities seeking its approval on the project’s plan including, but not limited to:

<table>
<thead>
<tr>
<th>Table 9: Types of Approvals</th>
</tr>
</thead>
<tbody>
<tr>
<td>❖ Proposed locations</td>
</tr>
<tr>
<td>Zoning, land planning, facilities and building standards, regulations, transportation and accessibility to highways and waterways</td>
</tr>
<tr>
<td>❖ PPP establishment</td>
</tr>
<tr>
<td>Goals, roles, necessary setups, expectations</td>
</tr>
<tr>
<td>❖ Finances</td>
</tr>
<tr>
<td>Funding methods, conditions and their uses, concessions’ terms, financing countries, development charges, customs, taxes’ variability, tariff elimination to sell inside the domestic markets, export incentives provided to local firms subcontracting with zone ones, providing zone location exceptions and -- similar to zone -- export incentives for factories exporting or supplying the zones with quality material and capital operating outside the zones</td>
</tr>
<tr>
<td>❖ Schedules</td>
</tr>
<tr>
<td>Appropriate timeline, deliverable tasks and local as well as national outcomes</td>
</tr>
</tbody>
</table>

Source: Author

The detailed guide, if approved and deems suitable for the country’s economic targets – hopefully realized by 2020 as a preliminary deadline, will require the administration to make necessary arrangements with the ministries concerned, identify their roles, operating works, and the services to be provided. The government should additionally set the necessary clawbacks within a regulatory framework – which if not clearly set within the zones’ planning, can condemn them to fail. Some examples comprise environmental, health and safety, labour rights’ issues, equity links (like joint ventures), non-equity (like technical contracts), local content rules, among others. All government tiers including subnational, municipal and community levels as well as businesses should apply such rules – although their presence do not guarantee their success. The government should also delegate its authority to the corresponding institutions while providing an appropriate level of autonomy to each pending the circumstances or, simply, creating quasi-autonomy corporations, if needed, for serving this specific purpose.
8.5 Marketing Strategy: Think Big. Think Egypt

The purpose of this marketing strategy is to position Egypt’s revitalized zones as a global textile hub. This vision can be realized using an integrated marketing approach (IMC) that creates brand awareness and emphasizes the zones’ – previously stated – mantra (connect, prospect, invest) by connecting all stakeholders, prospecting potential local, regional and international investors and investing the country’s assets in attracting new investments to the zones, creating job opportunities, and organically growing the local economy while positioning it globally.

Succinct, consistent and expressive messages will be communicated to potential target markets, based on their region, through the appropriate channels. Consistent messages are meant to create positive perceptions, increase powerful images in investors’ mind as well as their trust about and loyalty to Egypt’s investment climate in general and its economic zones as peculiar destinations for relocating or expanding their businesses while showcasing the country’s historical and promising clusters. Although the presented approach illustrates more emphasis on business development aspects, the model’s marketing strategy will be additionally tinted with Egypt’s unique authenticity, distinctive tourism and culture, vibrancy as well as the enjoyable quality of life.

Branding messages such as Invest in Egypt. Invest in EZ or Think Big. Think Egypt can, for instance, be sent to regional and international target audience while others like Global Quality. Local Brand or Think Big. Think EZ can be transmitted to Egypt’s locals. The zones’ PPP’s leadership should possess, at least, one or more of the four qualities (namely instigator, innovator, integrator, and implementer) that form a successful “marketer’s DNA” (Comstock, Gulati, & Liguori, 2010, p. 4) to be able to highlight the distinctive features of the revitalized locations through the offered marketing and promotion mixes along with the appropriate marketing material and digital media devices -- that are specifically and widely used in the country concerned. The industry of focus has historically achieved a world-class reputation, including the existing QIZs, which indicates that “cross[ing] the chasm” (Lynes, 2012, p. 7) within the new zones should not face any challenges – given the proper application of all aforementioned criteria, among others.
suggested by various stakeholders. In contrast, their speedy success is expected to go viral (Ratcliffe, 2011) shortly after launching the pilot project, which is a highly desired outcome for any marketing strategy and fits-well with the potential EZs’ aims.

The marketing mix

In association with the services provided by Egypt’s revitalized economic zones, a crucial tool in the marketing strategy is creating the appropriate blend of marketing elements that should make the services provided resonate well with the project’s target audience in both domestic and foreign markets. The mix comprises four factors related to the place, price, product and promotion mix (i.e., the 4Ps) of the zones. Figure 22 portrays the marketing mix of the country’s pilot EZs, which are situated as the “centerpiece” of the blend (Harvard Business Essentials, 2006, p. 22).

Figure 22: Marketing Mix of Egypt’s Revitalized Zones

Source: Adapted from Harvard Business Essentials, 2006

Most of the 4Ps are well-explained in earlier sections of this paper; nonetheless, the only feature that needs to be touched on here is the promotion mix, which involves personal and non-personal methods used to promote the offered services of the project. Figure 23 represents some of the customer interaction means including personal sales, like face-to-face meetings and telephone calls. Classical marketing, like print ads, advertising on national (state-owned and private) as well as international television and radio while using
pay-per-click ads on site selection and economic development directories, newspapers and magazines (like, the Economic Development Directory in Africa\textsuperscript{17}, the Site Selection\textsuperscript{18}, International Economic Development Council\textsuperscript{19}), among other local publications, such as the Al-Ahram Weekly\textsuperscript{20}, Business Monthly\textsuperscript{21} and Business Today\textsuperscript{22}), just to name a few, as well as billboards and other outdoor advertisements. Direct marketing is another promotion mix factor that comprises direct mailing of brochures and telemarketing to investors and exporters in the textile industry and its related-industries. Public relations is an invaluable mix element that helps in informing potential businesses about the importance of zones and their role in promoting backward linkages and economic prosperity. Such aim could be achieved through messages sent by Egyptian celebrities, Nobel laureates – like those referred to earlier, world champions and athletes (such as Yasmin Rostom\textsuperscript{23} ranked the 30\textsuperscript{th} and 23\textsuperscript{rd} in ribbon Grand Prix, rhythmic gymnastics, in Moscow in 2010 and 2012)

\begin{figure}
\centering
\includegraphics[width=0.5\textwidth]{promotion_mix.png}
\caption{Promotion Mix of Egypt’s Revitalized Zones}
\end{figure}

\begin{itemize}
\item Economic Development Directory in Africa: http://ecodevdirectory.com/listings-category/africa/
\item Site Selection Magazine: http://www.siteselection.com/
\item International Economic Development Council: iedconline.org
\item Al-Ahram Weekly Newspaper: http://weekly.ahram.org.eg/
\item Business Monthly Magazine (AmCham’s): http://www.amcham.org.eg/resources_publications/publications/business_monthly/
\item Business Today Magazine: http://www.businessstoday-eg.com/
\item Yasmin Rostom, Ribbon Grand Prix, Moscow 2012: https://www.youtube.com/watch?v=C0CqhtJlzHA
\end{itemize}
respectively), press releases, as well as during international conventions and trade fairs that Egypt either hosts or participates in (such as, the World Economic Forum\textsuperscript{24}, Cairo International Film Festival\textsuperscript{25}, and the Annual Arab Cultural Festival\textsuperscript{26}, among others).

Another powerful element of the promotion mix is sales promotion. This could be done through tax credits for improving or expanding existing locations, training, hiring more Egyptian employees and workers, starting new product lines, and increasing industrial production, selling global quality products with competitive prices in the domestic market, and R&D activities among other methods. Besides, loyalty marketing, a sales promotion technique, could be dedicated to loyal EZ customers to show appreciation of their business and encourage them to stay in the zones. It is, simply, one way of retaining current zone occupiers.

Last but not least, branding the zones through its digital media is crucial to the publicity of the zones and an undeniable high impact, low cost method. An effective digital media strategy should be planned ahead to understand the impact of each device on the target audience that helps in allocating resources as well. A productive plan can be applied through attractive, yet meaningful logo design, an interactive website (including search, feedback and contact us features along with providing zone facilities and detailed info as well as applications for investors interested in establishing their business in the localities of focus), e-newsletters, social media platforms and a phone application that allows investors to send their requests for information and get immediate responses as well. In addition to the above, it is critical to have hotline numbers that are dedicated for customer service and which should provide on-hold messaging in response to some of the customers’, at least, basic inquiries.

The above composes the main features of Egypt’s revitalized zones’ promotion mix along with examples of their application that are expected to be efficient and produce cost-effective results on both short- and long-term basis.

\textsuperscript{24} World Economic Forum: http://www.weforum.org/
\textsuperscript{25} Cairo International Film Festival: http://www.ciff.org.eg/
\textsuperscript{26} Annual Arab Cultural Festival: http://www.arabculturalcenter.org/index.php/annual-arab-cultural-festival
**Investment package**

A significant part of a successful PPP and its marketing strategy is to prepare an informative and appealing investment package that should provide the necessary information, and key contact numbers for corresponding officials to different industry-related activities, utility companies, ministries, and those of the PPP’s staff in addition to copies of zones’ publications (latest newsletters, magazines, and reports). On a broader scale, the package should include national level information that is mostly, if not entirely, included in the value proposition (fully explained earlier), yet supported by further data, reports and statistics about Egypt’s macroeconomic indicators, investment climate, investment-related regulations – if needed, strategic location for both investment and trade, market trends, incentives, repatriation programs – if any, competitive low costs of factors of production and those of doing business as well as real estate and tourism figures. It should, additionally, highlight the zones’ services, features, industry’s historical competitive advantage and success (in numbers), especially within the current zones, among other business aspects (like legal, accounting, finance, and immigration issues, just to name a few) for potential investors. On a smaller scale, the same investment package should include zone specific incentives given for zone businesses along with build-up, operating costs within the zones and existing facilities.

I cannot emphasize enough the importance of creating an appealing and informative package with comparative analyses to other markets. This is an essential determinant in selecting one location vs. the other. The investment package should be in both soft and hard copies whose purpose is to be sent in response to requests for information from businesses interested in expanding or relocating to the zones. Soft copies are typically sent electronically to potential investors who are invest-ready, but have not yet made their final location choice. While the soft copy is meant for those still indecisive about their new business destinations or those who prefer such communication method, the hard copy should be given to those who have studied potential locations and already compared their virtues coming up with shortlisted sites to visit. The prestigious packages can also be provided during trade missions and, in some instances, during trade shows or conferences. At that point, an investor makes an informative, final decision based on the collected data. A visit is then scheduled at the location of choice, or different shortlisted ones for comparison purposes. That, typically,
includes in-depth discussions about business-related details and information for expanding or relocating matters along with a site selection tour to the country of choice, and the revitalized zone in this case.

As an investment package comprises key marketing material given to potential investors that plays a crucial role in attracting investments, it is also important to add a promotional touch to the package by providing a zone-specific universal serial bus (USB), for instance, or similar items that impresses investors, leaves a positive impact and perception about the country while flashing the words *Think Egypt*, which hopefully results in closing the sale.

**Trade, partnership agreements and memoranda of understanding**

Trade is commonly known as an initial mode of market entry, which might, eventually, turn into attracting foreign investments into a host economy, increase exports and minimize costs for businesses in any country including that of focus. Therefore, promoting destinations requires diligent planning and thoughtfulness, particularly within a globalized market where bidding wars become a common practice – not to mention how it gets fiercer within a world economic recession, tighter lending policies and depleting resources. Given that, creating partnerships and strategic alliances as well as signing memoranda of understanding (MOUs) among various agencies or parties are crucial and cost-effective strategies in promoting the country’s trade globally.

Although Egypt is doing some efforts in this regard through its door knocking missions and participation in trade shows, such activates require highly concentrated preparations to meet pre-set targets agreed on by industry leaders, governments, and all trade-related stakeholders. For instance, Egyptian embassies and commercial offices abroad should exert more effort in terms of being the on-site experts in searching for and creating business opportunities for Egyptian exporters to foreign markets, identifying necessary export certifications, licensing, export and import controls, among other requirements needed from the country’s traders, and locating competitive suppliers that meet industries’ requests in the country concerned. While providing the necessary in-market information for business delegations, following-up on business-to-business (B2B) and matchmaking deals, updating the home country with changes in political, economic and trade regulations in foreign
markets is essential in redirecting goals or channels of trade, ensuring Egypt’s active presence in international events, looking for partnerships and strategic alliances with international business counterparts across the supply chain, trade associations, business councils, and chambers of commerce among other trade-related bodies -- being governmental, non-governmental or private -- is imperative from my point of view.

Figure 24: Egypt’s Revitalized EZs’ Continuum

Source: Adapted from Srinivas, 1999

Egyptian commercial offices should also play a significant role in spotting government-to-government (G2G) agreements, and tenders, among other areas of G2G cooperation and mutual benefits. The offices can also help Egyptian business delegations in creating new
industry linkages and nurturing relationships with trading partners outside Egypt, especially during trade shows and conferences. They can cooperate with local market experts that help in walking trade shows and sealing deals during events as such. Egyptian trade offices can, moreover, be an effective point of contact and a valuable source of information for foreign businesses looking for suppliers or partners in Egypt.

The aforementioned are some points that should form the building blocks of increasing Egypt’s visibility and effectively promoting its existing as well as potential trade and investment capacities under a whole new, restructured approach adopted by its currently, active administration. Egypt’s re-branding strategies should target building a new image inside and outside the country of focus that should enhance productivity, increase competitiveness, performance, and revenues, thus, improving the local-continuum in a cross-national and, ultimately, regional and globalized contexts as illustrated in Figure 24.

8.6 Key Performance Indicators

In order to gauge the performance of this proposed model, I see that setting the key performance indicators (KPIs), against which the outcomes are benchmarked, is an integral part of this economic blueprint. It is noteworthy that as this is an original economic development prototype for revitalizing Egypt’s economic zones, to be implemented in the near future, the suggested KPIs should be considered as broad guidelines that could be modified as the project goes on and grows. Progression or regression among the project elements and during different periods of time should be evaluated periodically, yet frequently enough, to make the necessary adjustments that are feasible while avoiding unnecessary costs. It goes without saying, that although the performance measures recommended in this section are to be applied for the textile industry in the pilot project in Egypt, they are widely used -- whether similarly or differently -- among top international economic development organizations as well as across all government tiers, and could be pragmatic tools for similar projects provided necessary adjustments are made to meet other industries and locations in Egypt.
**Sales funnel**

The sales funnel (see Figure 25) is one of the well-known and effective measures in any sales process. It simply illustrates the stages that a sales process goes through starting from lead generation and ending by the number of actual sales that generates revenue. The first phase is designed for investment attraction, known as lead generation, during which all customers that fit into the target audience are approached. The second stage is set to qualify those leads, called prospecting, and limiting them to those who show interest in the product or service, namely EZs – for this project. Next comes the opportunity of shortlisting qualified leads who see the value in the offered service, within their estimated budgets, and are willing to proceed in their business plans within a given timeline to complete the deal. The following stage is the actual engagement of the investor, through a proposal, in a verbal commitment or a written contract that states all terms and conditions including payment and delivery, thus, converting prospects to actual clients, i.e., investors, by signing the contract and sealing the deal, which, ultimately, generates revenue.

**Figure 25: Sales Funnel as a KPI**

![Sales Funnel Diagram](image)

*Source: Progotta, 2014*
Other performance measures

Even though the sales funnel is a significant measure of the sales process, there are other KPIs that are widely used that I preferred to state them briefly in the following table along with a short explanation for each.

<table>
<thead>
<tr>
<th>Table 10: Other Performance Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on Investment (ROI) is a profitability ratio that is widely used in evaluating the efficiency and gains from an investment compared to others.</td>
</tr>
<tr>
<td>Volume of exports</td>
</tr>
<tr>
<td>Plant improvements including equipment maintenance and upgrades to avoid downtime, increase productivity and minimize operating costs.</td>
</tr>
<tr>
<td>Expansion plans of any business is based on higher growth and revenues, thus, inducing more investments in expanding the business activities.</td>
</tr>
<tr>
<td>Employment rate increases as existing businesses grow and new ones are established.</td>
</tr>
<tr>
<td>Feedback is one of the evaluation tools used to measure performance. It could be within an organization highlighting the need for improvements or emphasizing points of strengths or could be provided by customers in the form of reviews that share their experiences with the associated product or service.</td>
</tr>
<tr>
<td>Customer service (CS) is an essential, yet dynamic, KPI which requires continuous assessment through CS surveys to understand customers’ experience, the reasons behind their satisfaction level (for instance, inside the zones compared to other locations) and measure their willingness to recommend the zones to other businesses.</td>
</tr>
<tr>
<td>Speed of service affects a customer’s experience. Therefore, reducing wait time for serving clients in responding to their requests, resolving business-related issues they encounter, and delivering just in time services are central to creating a positive impression on investors.</td>
</tr>
<tr>
<td>Stories of success of businesses located in the zones are significant in increasing the positive image about the zones and their services. They are also highly important in inspiring other businesses and creating a word-of-mouth that goes viral and ultimately promotes the zones on national and international levels – given that they are advertised using appropriate, strong messages that are delivered through different, reliable, and effective communication methods.</td>
</tr>
</tbody>
</table>
Web analytics is an important digital tool that monitors website traffic, number of visitors, searches engine. It is a great measurement for recognizing the source of connecting websites, tracking the time spent looking at websites or their particular pages, engaging web visitors to subscribe for newsletters and identifying the costs related to converting a visitor to a subscriber.

Budget, timeline and deliverables

- Budget

This model is considered a framework for the pilot project, which requires further on-the-ground research, studies and careful mapping for all details from both national and subnational perspectives -- not only for budgeting reasons, but also for economic and political deliberations. Besides, as indicated earlier, the project should seek funding from different local, regional and international sources, which are, the main sources of revenue, yet still unapproached and intangible targets. None of the above can, consequently, be estimated as this conceptualization is in its infant stage and requires, after its approval, the collaboration of all stakeholders, each in their respective field of expertise, to set a realistic, itemized budget based on estimated costs and revenues. Actual market prices for labour wages, build-up as well as infrastructure costs, zone investments, and concessions, among other factors, are some of the major budget items. It is, however, important to consider costs of marketing activities including, but not limited to, advertising on international television and radio, online marketing comprising advertising on non-Egyptian websites, magazines among other publications, hosting and participating in trade shows, contracting with foreign organizations as local experts for generating leads and guiding business delegations in trade events and meetings, just to name a few. Most of the aforementioned, among others, are to be decided on based on their planned frequencies during a period of time and at the time of implementation, given all approvals are granted and adjustments – if necessary – are made. Travel and event participation costs will be, exceptionally, calculated at the time of each event that will take place as travel, accommodation, sponsorship and conference fees differ by industry, season and the hosting country.

Another important note, pinpointed earlier, is that the PPP will promote multiple trade and investment activities, at no-cost, through leveraging the resources of public and private
sectors’ partners involved to deliver the revitalized EZs’ goals. Examples of such activities comprise:

**Marketing**

Direct marketing, advertising on national public and private television, radio, websites, magazines, press releases, print, and newspapers, branding, websites designs, portals, social media, and organizing events, etc.

**Lead generation**

In-house, government missions across the world, established Egyptian companies in foreign countries, trade associations, business councils, and chambers of commerce, etc.

**Other costs**

Salaries, postage, office equipment and supplies, computers, etc.

**Travel and accommodation**

The state-owned EgyptAir airline and its 27-member, Star Alliance\(^{27}\), airlines, Egyptian travel agencies and hotels’ owners, and their partners, inside and outside Egypt

The stated points are major cost items in similar PPP establishments; nevertheless, the list presented in this section does not, by any means, intend to be inclusive to all required costs and revenue items. Its aim is, however, to highlight some key budget contributors. Hence, for the purpose of this document, setting estimated budget will neither be realistic nor feasible as it is too early to reach that stage of determining the myriad financial details for such a mega project.

➢ **Timeline and Deliverables**

I previously mentioned that the time frame for a green clean pilot project is set to be by the end of 2020. Although ambitious -- especially with the environmental sustainability element, the New & Renewable Energy Authority sets the same date, as stated earlier, for

\(^{27}\) Star Alliance network: http://www.staralliance.com/en/about/member_airlines/
accomplishing new renewable projects. Moreover, the Suez Canal Axis Development project’s success in attracting funds in less than ten days, only, from Egyptian citizens, the pace of work in the project and its expected inauguration of, at least, the initial phase by the last quarter of 2015, are crucial factors for ingraining confidence in the new administration and Egyptians’ capabilities of reviving their economy and making things happen. If that goal is realized, its successful model could be similarly followed in other projects, like the one in hand. That said, in Figure 26, I propose a timeline with scheduled deliverables as a tentative action plan to take place within the coming five-year period, from 2015 to 2020.

Despite the fact that the Suez Canal Axis Development and revitalizing Egypt’s economic zones schemes are different in nature, funding sources, among other variables, it is advisable that this project does not start unless the expected, condensed down to, one-year Suez Canal

Figure 26: EZs Pilot Project’s Initial Five-year Action Plan with Timeline and Deliverables

Source: Author

110
project is accomplished. In spite of such recommendation, the allotted time could be invested in proposing the project to the Egyptian authorities, seeking necessary approvals, making adjustments and communicating with various stakeholders to make it ready to implement. If such time, hopefully, coincides with the delivery of the aforesaid canal project, the inspirational motives, driven by the dire need for a positive change, of Egyptians, including all stakeholders of this plan, are expected to reach their highest altitudes and accordingly will act unitedly as a powerful momentum in implementing this plan – as part of re-building the economy, especially after going through the unprecedented political instability, deteriorating economic conditions and lack of trust in the authorities since the 2011 revolution.

8.7 Expected Outcomes of Revitalizing Egypt’s Economic Zones

Spillover effects

I explained many of the expected outcomes, in separate sections, of revitalizing Egypt’s economic zones using the suggested economic policies and marketing strategies, among others. There are some positive externalities that will, however, result from the successful implementation of the pilot project and which I will shed light on in this section.

Upgrading textile workers’ skills through the learning-by-doing concept is, for example, a cost-effective as well as time-efficient technique. In other words, and in order to get the industry’s labour force up to speed with global standards without sacrificing much time or money in vocational training, already skilled QIZ workers, presumably with three to ten years of experience in the zones, could seamlessly move between zones for training the joining workforce at the new locations. The same target could be attained by subcontracting with zone-outsiders. Rotating the skilled workers as well as the inter-firm migration of technical experts and workers across the designed zones and in the domestic market will help recent hires to gain a lot of industry knowledge and alternative techniques at the workplace while, undoubtedly, help them create their own resulting in increasing their productivity as well as that of the zones.

Similarly, the ongoing exchange of activities between Egyptian and foreign investors locating or expanding in the revitalized EZs with their peers outside the zones, especially Egyptian businesses who have partnerships or longer experiences in dealing with foreign
companies as well as their foreign counterparts will lead to stronger backward and forward linkages. Producing global quality, doing business techniques, meeting international market demands while upgrading the technology used to match those of the QIZs’, or foreign companies’ – if not obsolete -- are some examples of practically learning the latest production methods and trends. Additionally, domestic businesses expanding their manufacturing activities (whether partially or fully) to the zones – seeking to garner the promised EZs’ benefits – will transfer their advanced knowledge, skills and even workers to their original factories outside the zones.

Besides, as foreign companies with large production capacities are always on the look for big markets, as the case of Egypt, the government’s role of incentivising them with some form of exemptions in accessing the local market in addition to the benefits offered by the zones’ is seen as a far more effective strategy in attracting them to invest in the zones and building backward linkages in the local market as well (Sauvant et al., 1991, p. 4), especially that the zones are intended to perform export and import processing activities -- while allowing foreign as well as domestic companies to have access to the local market. Thus, bringing such benefits to other localities in the Egyptian market will create dynamic advantages, backward linkages and increase the competitiveness of local production, which will eventually result in improving the local quality of the offered products, with lower prices, not to mention increasing the volume of the industry’s exports (FIAS, 2008, p.12) realizing multiplier effects, garnering more gains and increasing consumers’ ability to choose among quality products.

Here, it is important to note that certain clawbacks, to at least recover incentive compensations provided, must be embedded in line with other regulations that should be clearly set and defined at the initial conception of the zones. The Egyptian authorities should establish rules that meet its long-term economic goals pertinent to the minimum standards accepted in multiple issues. Some of the targeted principles should, for instance, address issues related to the number of Egyptian vs. foreign employees, amount and type of work permits issued for foreign workers who should have skills that cannot be matched with similar ones from the domestic labour market, quantity and quality criteria for upgrading the local workforce, minimum wage rates, knowledge sharing, technology transfer, quantity and
quality of the manufactured products, industry clusters’ promotion and the development of their inter-firm links, among others, that are critical in realizing economic development gains that stick to the place and add value to the existing assets.

Cling and Letilly (2001) described the above as a “high-road” strategy, which they identified as central to successful economic zones that aim at promoting their national economic development. The result of such pre-set clawbacks, using their strategy, will result in bringing anchor investors to the zones who prefer quality over quantity, thus, creating long-term economic benefits that help in alleviating poverty. Some countries that used such strategy include Malaysia, Korea and Costa Rica. On the other hand, however, if the opposite “low-road” strategy -- applied by Bangladesh and the Dominican Republic, for instance, is used, an ensuing consequence is attracting rent seeking investors who count on incentives and cheap inputs of production. Ultimately, an added value is not achieved and costly incentives will, most likely, outweigh the benefits of bringing such investors to the country, thus, neither the zones in particular nor to the country in general reap any economic gains (pp. 24-25). As a result, fertilizing the larger national economy is unrealized. To avoid such undesirable consequences, Egypt should specifically determine the shape and scope of policies to be applied in the revitalized zones as an essential part of the country’s national strategies.

Economic sustainability

Economic sustainability is an ultimate goal on both micro, i.e., firm, and macro, i.e., national, levels. It, hence, goes without saying that it is a sought after objective by any country including that of focus. From the previous discussion, it is obvious that Egypt’s restructured political economy aims at setting the appropriate strategies in place to make an optimal, balanced and responsible use of the country’s assets. Although it is too early to realize tangible outcomes and judge the effectiveness of the recently adopted, adjusted or proposed yet unimplemented plans, signs of economic development – referred to earlier, indicate that the republic is rerouting its directions towards a better deployment of its resources. If that continues to happen, the state will be able to capitalize on its assets and maximize its benefits over a longer period of time, accordingly, realizing its economic
sustainability. Securing constant gains one project following the other will no doubt drive the economic development process forward leading, gradually, to the country’s prosperity.

Nonetheless, Farole (2011) underscores other equally important factors that contribute to the sustainability of the zones. The author accentuates the role of building a solidly founded social infrastructure\textsuperscript{28} that is equitably accessed by citizens, residents, businesses and workers outside and inside the zones. Some critical elements that contribute to that end are closing the gap between labour wages, working conditions, environmental regulations, among others, that should be equally applied on both zone and national levels, which should be attended to by the current administration. Even though there is a wide gap of such elements between the “de jure and de facto” in many African countries if internal zone conditions, that meet international standards, are compared to external ones (p. 13), there is neither specific reference nor available data nor research studies done in this regard for the country concerned – yet an area that requires further examination. Even though, Egypt’s compliance with both social and environmental approaches within and outside EZs should be stressed on while crafting new policies or adjusting others.

\textbf{Economic resilience}

Government agendas, despite packed, should be comprehensive and detailed to the point in terms of planning their endogenous policies and building a country’s ability to recover from exogenous ones while being adaptable to new situations. A sustainable economy – though an ultimate goal in itself – is, thus, not the only target. It is, yet, one among many others that either pave the way to that end or complement it. One of such indispensable objectives is economic resilience.

To be buffered rather than buffeted by globalization and its interrelated, sequential impacts worldwide, long-term planning should lay the ground work for a country’s resilience and its

\textsuperscript{28} Social infrastructure is “a subset of the infrastructure sector and typically includes assets that accommodate social services…. [Such] assets include schools, universities, hospitals, prisons and community housing. Social Infrastructure does not typically extend to the provision of social services, such as the provision of teachers at a school or custodial services at a prison…. In New Zealand, Social Infrastructure is almost exclusively provided by a central or local government (or related entities such as district health boards and universities). The development and provision of Social Infrastructure is well suited to PPPs, which have been used successfully to deliver public infrastructure since the early 1990s in the United Kingdom, and more recently in Australia” (New Zealand Social Infrastructure Fund [NZSIF], 2009).
ability to face unanticipated, mostly unpleasant, direct or indirect economic shocks. The level of a country’s readiness is determined by the strength of its resilience capacity which helps in reducing the impact of risks and economic disruptions. Multiple factors that support the composition of a resilient recovery, in case of unexpected events, comprise, but are not limited to, economic diversification, and the degree of flexibility of a country’s resources whether they be human capital skills, businesses, institutions and regional networks (Christopherson, Michie, & Tyler, 2010; Safford, 2004; Wolfe, 2010).

An “adaptive ability” (Christopherson et al., 2010, p. 8) can only be achieved if a broader, bottom-up approach is used in order to build capacities from within starting from individuals and households and up to enterprises whether private, public or not-for-profit organizations. Building capacities of communities – including the underprivileged – can be accomplished by building on existing assets, strengthening and linking social capital and business networks as well as encouraging entrepreneurship, which result in creating a capable civic infrastructure that copes with future economic shocks. Combining social and economic

**Figure 27:**

**Community Capacity Building – Local Multiplier Effect (Combining Social and Economic Factors)**

![Diagram of Community Capacity Building – Local Multiplier Effect](image)

*Source: Reproduced with permission from Westall, Ramsden and Foley (2000).*

*Source: Noya & Clarence, 2009*
factors, identifying community problems, their causations, and working on resolving them are central to developing a locality’s resilience capacity and leads to local multiplier effects, as presented in Figure 27, that benefit the community (Noya & Clarence, 2009, pp. 4-6), whether it be the zones or the country concerned in this research. Therefore, Egyptian policymakers should incorporate resilience initiatives and respective capacity building programs into the country’s broader strategies and across all sectors – based on their trajectories, which might contribute to sustainable development (Pisano, 2012, p. 48). Nonetheless, although beyond the scope of this model, it is noteworthy to state that due to the complexity of the social ecology behind economic resilience, it is debatable whether it necessarily contributes to sustainable development or not.
Chapter 9

The Model’s Compliance with the World Bank’s LED Definition,

Purpose and Strategy

At this point of the research, the proposed local economic development model has adequately been discussed, supported by previous empirical work, statistics, theories and contemporary strategies under implementation in the country of focus. The utility of the multidimensional model has been also elucidated based on Egypt’s political, economic and historical background, the industry’s competitive advantage, factors of success, challenges, administrative and marketing approaches, performance metrics, anticipated outcomes and policy recommendations for revitalizing Egypt’s economic zones, and particularly its clustered textile industry.

Before concluding the study, in this section, I have chosen to add an extra aspect of validity to the offered model by presenting its compliance with the World Bank’s LED definition, purpose and strategy. The World Bank (2011c) states

The purpose of local economic development (LED) is to build up the economic capacity of a local area to improve its economic future and the quality of life for all. It is a process by which public, business and nongovernmental sector partners work collectively to create better conditions for economic growth and employment generation.

… (LED) offers local government, the private and not-for-profit sectors, and local communities the opportunity to work together to improve the local economy. It focuses on enhancing competitiveness, increasing sustainable growth and ensuring that growth is inclusive. LED encompasses a range of disciplines including physical planning, economics and marketing…

The practice of local economic development can be undertaken at different geographic scales. A local government pursues LED strategies for the benefit of its jurisdiction, and individual communities and areas within a local government's jurisdiction can also
pursue LED strategies to improve their economic competitiveness. Such approaches are most successful if pursued in partnership with local government strategies. LED is thus about communities continually improving their investment climate and business enabling environment to enhance their competitiveness, retain jobs and improve incomes.

The international bank proclaimed that various LED methods can be deployed based on a locality’s needs. Many of the provided approaches are notably applied in the proposed model as illustrated below.

<table>
<thead>
<tr>
<th>Table 11: Applied World Bank LED Approaches in the Proposed Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>❖ <strong>Ensuring that local investment climate is functional for local</strong></td>
</tr>
<tr>
<td><strong>businesses</strong> which is suggested to be done through the creation of the PPP as a well-connected, effective one-stop-shop for supervising the zones’ activities and providing facilitated services to zone occupiers</td>
</tr>
<tr>
<td>❖ <strong>Support small and medium-sized enterprises</strong> that will be achieved by guiding them in how to establish their zone businesses, connecting them with appropriate resources to help them operate and grow their business as well as through the tax credits and holidays designed for that particular category</td>
</tr>
<tr>
<td>❖ <strong>Attracting external investments (nationally and internationally)</strong>, which will be achieved, first, through economic gardening to attract domestic businesses, encouraging entrepreneurs and, then, by attracting FDI through trade missions, commercial offices, among other methods explained earlier</td>
</tr>
<tr>
<td>❖ <strong>Investing in soft infrastructure, like human resource development</strong>, by applying the learning-by-doing concept, seamless movement of skilful employees and workforce across zones as well as outside the zones besides subcontracting with zone outsiders. <strong>Institutional support</strong> will be provided through the PPP to help businesses, of all sizes and scales, from the early stages of establishing their investments until they grow, expand or diversify in different activities and while dealing with various regulations, financial and non-financial matters</td>
</tr>
<tr>
<td>❖ <strong>Supporting the growth of particular clusters of business, i.e., the textile clusters in the Egyptian zones</strong></td>
</tr>
<tr>
<td>❖ <strong>Targeting particular parts of the city for regeneration or growth (areas based initiative)</strong> that are well-identified in this model and limited, initially, to the four recommended new zone locations in proximity to the current QIZs</td>
</tr>
</tbody>
</table>
Targeting certain disadvantaged groups, such as the unemployed, the uneducated or the lower-income groups

Source: World Bank, 2011c (points in bold)
Explanation by author (points are not bold)

Not only does the proposed model fulfil many of the World Bank’s LED approaches, but the offered structure of revitalizing Egypt’s economic zones almost satisfies the five-step planning process, with subtle differences, for forming a LED strategy as follows: (1) organizing the effort by defining the community of focus, its stakeholders as well as its potential, available resources and skills; (2) conducting the local economy assessment by identifying the locality’s strengths, weaknesses, among other information and analyses while informing the community about the future project; (3) developing the LED strategy, which is the actual involvement of the stakeholders, identifying their roles, potential steps in implementing the project; (4) implementing the LED strategy according to the scheduled timeline and deliverables while monitoring the outcomes to ensure their compliancy with the targeted goals; and, (5) reviewing the LED strategy by monitoring the progress, identifying challenges, finding solutions, and adjusting the plans (World Bank, 2011a).
Chapter 10

Conclusion

Even though a series of protests against political and economic conditions started as early as 2003 under Egypt’s former regime, the 2011 “Arab Awakening” was met by surprise not only by the Arab Spring nations and governments alike, but also by the whole world. The “initial euphoria” created by the uprisings (Cooper, Momani, & Farooq, 2014, p. 360) gave hope to many that radical political, and, ultimately, economic changes will happen in favor of the people. A few months later, Egypt’s 2011 Youth Revolution seemed to be doomed as predictable scenarios then did not foretell how events might develop to what became a challenging reality for the following three years. The upheaval took various magnitudes as well as opposite directions until Al-Sisi’s administration set a precedent that, so far, seems to serve the country’s speedy efforts in reconstructing, catching up with and restoring its previous economic and political balance.

This document aimed at defining economic zones as demarcated areas that enjoy liberal business environment and target particular areas for growth while highlighting their remarkable results in some countries that indicate multiple, static as well as dynamic feats, which can promote economic development activities, catalyze national reform and result in organic growth, prosperity, sustainability and resilience. To that end, stakeholders’ participation, civic engagement and effective administrative bodies are key to fulfil such goals. Diligent planning, political salience and effective policies are instrumental to the success of the pilot project and, ultimately, setting the stage for a solidly founded economy. The building blocks that lay the groundwork for the proposed model -- from locations to deliverables -- were elucidated in different sections.

This local development model for revitalizing Egypt’s economic zones illustrated how the catalytic, spillover and multiplier effects could be achieved from operating newly selected zone locations in proximity to the existing Qualifying Industrial Zones. The accomplishments of testing the action plan’s policies, initially, on the local zones’ level, indicate that they can, optimally, be applied on the broader, national, scale -- provided necessary modifications are made. The proposed scheme used specific strategies -- whether
to be created or adjusted, along with incentives and facilities combined by clawbacks to promote export- and- import-oriented functions within the zones and ensure the attraction of anchor investments to the localities. The ultimate goal is to create world-class economic zones that bring global manufacturing standards to the local economy. Such standards’ incentivized, yet calculated, packages and easiness in doing business procedures should be, first, provided to local investors expanding their activities to the zones. They should also benefit from equal incentives in their domestic facilities, operating outside the zones, if minimum requirements and competitive measures are met, thus, forming stronger backward linkages to the domestic economy and deriving long-term benefits that stimulate organic growth and improve economic prosperity.

Relying on secondary data sources gathered from Egyptian and international sources including banks, industry reports, research studies, academic work, and various publications, sections three to seven provided detailed information, supported by empirical evidence, about the importance of economic zones in reinvigorating a deteriorating economy, their role in economic development, guidelines on the footprints of successful models and highlights on the pitfalls of others. The same parts exposed specific data about Egypt’s zones, particularly the QIZs, within both regional and continental contexts, the country’s economic and political background, existing assets as well as persisting challenges. The environmental scan of the country concerned provided concentrated amount of information pertaining to Egypt’s points of strengths, weaknesses, available opportunities and potential threats facing the Egyptian textile industry. Following the aforementioned, a comprehensive model was illustrated including all necessary information and tactics from the organization structure to marketing strategies for the new locations. A supplemented, detailed part on the appropriate funding schemes, performance metrics, a tentative scheduled plan and expected deliverables were offered as well.

The diligent efforts done in crafting this model, methods and steps are crowned by comparing them with those designed by the World Bank. The compliance of this pilot project’s plan with the World Bank’s definition, purpose and most of its approaches is the sweetest spot that backs the success of this initiative in the country of focus. Further support is depicted by the vigorous economic policies and mega development projects, recently
approved, on tight timelines that are underway in Egypt. Their speedy approvals, fundraising and implementation are promising reform steps that, if accomplished, will drive Egypt’s economic engine and increase the confidence in the government’s effort in preparing the country for an enabled business environment and investment climate for local and foreign investments.

Economic development in Egypt is, therefore, happening and the effects of many aspects of an immediate action plan have been visible on different horizons across the country. Even though no tangible outcomes for the undertaken efforts, recently adopted by Egypt’s policymakers, came to completeness – due to the short time span, their expected success is sensed through the noticeable progress in some projects that have -- been presented in this document -- already initiated in the last few months besides the critical mass of international investment and trade delegations that have lately been pouring into Egypt looking for new economic initiatives, trade venues and investment opportunities with the strategically located and extremely dense market of the country concerned.

Some people, however, still have questions or rather doubts about the undergoing changes, how effective they will be and, most importantly, how they will affect their standard of living. In response to their well-taken uncertainties, the current president, his chosen cabinet and recently created scientists’, youth and research and development councils were formed and officially announced to the public to help attending to their concerns and replacing such reservations with confidence in the people’s capability of making a difference, the sincerity of the present regime in reviving the country’s economy and, ultimately, regaining Egypt’s historic positon among the big leagues rather than the out-riders. That, however, requires the integration of all available human, financial and physical resources, collaboration and commitment of all stakeholders including the government concerned, its selected representatives as well as the public (individuals and businesses) in order to comprehensively understand the reality of the current situation, modulate competitive but progressive goals, monitor their implementation, adapt, make suitable adjustments, and, most importantly, share the expected hardships along the path to success to achieve the pre-set targets in the shortest time possible.
In sum, rebranding Egypt’s safe and stable image has recently started and signs of its perceived value is gradually regained through its current economic endeavours, public interest, participation and, at least, regional – if not global, support which repositions the country on the international political and economic radar. The intensity and speed of the decisions made that grabbed local, regional and global attention indicate that Egypt’s newly crafted regulatory framework is not just “old wine in new bottles” (Harrison, 1992, p. 469).
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