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WORKING PAPER SERIES

AN INDUSTRY IN JEOPARDY THE URBAN ECONOMICS OF THE JEWELRY INDUSTRY IN KHAN AL-KHALILI CLUSTER IN EGYPT

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An Industry in Jeopardy

**The Urban Economics of the Jewelry Industry in
Khan Al-Khalili Cluster in Egypt**

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Introduction:

Industrial clusters have reemerged as important objects of research and policy analysis in both developed and developing countries. This research focuses on the gold industry in Egypt with special emphasis on the *Khan Al-Khalili* area, a place that itself combines essentially traditional economic activities with a wealth of monuments from the Islamic periods.

Over the years, *Khan Al-Khalili* has been known for the production and trade of jewelry, specifically gold products. For many decades, it was considered the Mecca of jewelry consumers in Egypt as well as other neighboring countries from the Arab world, e.g. Arabian Gulf countries. While constituting a good example of an economic cluster in a developing country, *Khan Al-Khalili* is facing tremendous pressures pushing the industry into a crisis. Located in the midst of historical Old Cairo, embracing some of the oldest Islamic monuments in the Middle East, the cluster has almost lost its edge as the main attraction for consumers from Egypt and abroad.

This research focuses on the external and internal factors affecting the industry and its economics, which have contributed to the shrinking of trade and consumption in the cluster. Competition arising from Gulf countries, Egyptian government's regulations, socio-economic and political conditions as well as urban factors constitute main sources of pressure on the industry preventing it from developing and eventually pushing it into a crisis.

The research is divided into three main sections. The first section presents an analysis of the gold industry in Egypt. It covers the different aspects of the mainstream mechanisms of the industry: raw materials, equipment, capital, markets, consumer behavior, production, employees and knowledge transfer mechanism, marketing and sales, and management of industry and the government's role. This section ends with a brief description of a subspecialty within the industry, that of individual artisans. It describes their business, their problems and their potentials.

The second section focuses on *Khan Al-Khalili* cluster. First, it presents a social profile of the cluster where social structure, educational level, and occupations are analyzed. Second, it scrutinizes its economic profile through unemployment and dependency rates, and distribution of population on the different economic sectors.

And third, it scrutinizes the cluster's urban profile through the study of its urban fabric, its buildings' characteristics and land uses at both ground and first floor levels. This section ends with a presentation of the comments from the industry's stakeholders –visitors, manufacturers and employees, and traders-, which were mentioned in a questionnaire developed to form a conception of their view of the industry.

The last section explicitly presents the factors affecting the industry: socio-cultural, economic, political and urban factors. It also includes a S.W.O.T. (Strengths, Weaknesses, Opportunities and Threats) analysis of the industry at *Khan Al-Khalili* area.

The conclusion of the research draws lines in an attempt to save the industry through recommendations of the stakeholders and researchers, helping the industry survive and assisting in acquiring a competitive edge in the new world order and the present tough economic conditions.

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I. The Mainstream Gold Industry in Egypt¹ and Sub-Speciality:

Egypt is one of the key gold consuming centers in the Middle East. For decades, it has had the position of being the main supplier of gold for the Arab markets. Being a main producer and consumer of gold, it could be jeopardized by both internal and external factors, and thus the scrutiny of the industry becomes crucial. This section highlights the specifics of the industry covering the following: raw material, equipment, capital, markets, production, employment and knowledge transfer, and finally the management of the industry and the government's role. At the end of the section, there is a brief presentation of individual artisans working in jewelry production—that of a very small sub-specialty in the industry.

1- The Specifics of the Mainstream Industry:

1-1 Raw material:

Egypt does not produce raw gold or any kind of precious or artificial stone except for one or two cheap types. Hence, import is the only source of raw material for the industry in general. The importation process of gold is divided into two stages. First is the importer himself then the distributor (or wholesaler) who handles the raw material to smaller distributors. This subdivision adds to the cost of the raw material due to the profit accumulated by parties involved in the process.

Despite the government's attempts to encourage the industry by charging 0% on bullion and 10% on jewelry, the importation of gold to the country is mostly through smuggling. This is due to the large difference between the additional charges other than the customs officially added to each Kilogram of imported gold, which generally ranges between 800-1000 (Egyptian Pounds) EP/kg (approx. \$130) compared to 200 EP/kg (\$ 30) for the smuggled gold. While the Egyptian market used to consume between 250-300 tons of gold per year where 150 tons are in bullion and 100 tons of jewelry, the reported imports do not exceed 10 tons per year. The world Gold Council (WGC) had estimated the following amounts of smuggled gold into the country.

Country of origin	Type of gold	Amount	Source
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¹ . Information in this section is based on a report by the World Gold Council in Egypt and interviews with manufacturers.

United Arab Emirates (Dubai)	Raw	120 Ton	WGC
Saudi Arabia	Raw	30 Ton	Swiss Banks
Dubai, Saudi Arabia, Italy, East Asia	Jewelry	100 Ton	Informant

Fig. 1 – Informal Imports of Gold into Egypt’s Local Market

(Source: World Gold Council (WGC) in Egypt)

As for the price of the raw material (gold) in the market, it is subject to price fluctuations at the international stock market. Hence, the price would be calculated as follows:

$$\text{Unit Price (the Ounce)} = \text{International stock market price} + \text{Transportation expenses} + \text{Traders' profit}$$

Due to the deteriorated market condition, as it will be demonstrated later in the research, the export of recycled gold has replaced imports which led to a reverse formula for the price of gold as follows:

$$\text{Unit Price (the Ounce)} = \text{International stock market price} - \text{Transportation expenses} - \text{Trader's profit}$$

The above formula gives the price at which gold is bought back from consumers in order to export it.

It is important to note that before the 1952 Revolution, banks were in charge of gold importation. After the revolution, specialized traders started the importation business where monopoly was non-existent. Imports used to be from banks in Switzerland and South Africa or in the form of jewelry from the United Arab Emirates. Imports had almost stopped for both legal and illegal markets.

The gold used in the production of jewelry comes in two forms: either old jewelry that is being reprocessed, also called *Kasr*; or raw gold 24 k, also called *Hal*. Professionals in the industry claim that the best quality of products comes out of a combination of both with a percentage of 30%, 70% of each respectively.

As for precious stones, they are mainly produced in South Africa but usually manufactured in Belgium and India. The latter exports about 95% of the world's manufactured diamonds, where most employees work from their homes for traders. Artificial stones are usually imported from China that has a virtual monopoly on it.

1-2- Equipment:

Most of the equipment and materials used in the production process of gold jewelry (e.g., gypsum, wax, etc.) are mainly imported from India, Italy and China. While Italy was a leader in machinery production, manufacturing replicas of any piece of equipment that appears in the world at lower prices, the weight nowadays shifted to the Far East. While some simple production tools are locally manufactured in Egypt such as scissors and brushes, the imported ones are more durable. Indian tools are less expensive than the European ones but lower in quality and durability. Machinery employed in the manufacturing varies from high tech and low tech depending on the scale of the workshop or factory and its specialty.

Some dealers and traders in the gold market are specialized in the sales of equipment and tools used in the production process. Tariffs on machinery imports for manufacturers (called Document of Needs *Bitaqit Ih̄tiyagat*) are 5% less than those imposed on equipment imported by traders. However, manufacturers pay an additional 10% of sales tax on this equipment despite the fact that they use it in their factories and workshops and do not sell them.

Major elements that affect the market of equipment in this industry are: the sales tax on imported equipment, intermediate products such as wax for manufacturing and the hard currency factor.

1-3- Capital:

Investment projects in the gold industry in Egypt are mostly self-funded. Banks do not play any role in this industry. The Central Bank of Egypt (CBE) refused the concept of "gold loans" so that banks would give bullions to manufacturers in the form of a loan for a specific period of time in return of a reasonable percentage (usually 1% in Switzerland and Canada). The gold loans while being important tools to stimulate the market, are not applicable in Egypt.

The dynamics of capital circulation in the market differ depending on the market condition. When the market is strong, factories and workshops work for the traders responding to their orders. In soft market conditions, traders work on credit getting the products from factories and paying back when they sell them.

1-4- Markets:

The study of the gold market in Egypt is quite a complex task due to the diversification that characterizes it. A presentation of cartage preference and consumer behavior is an attempt to simplify the complexity of the gold market description.

With an estimated number of 300 retail shops around the country (according to WGC information), the three main cities in which jewelry is widely traded are Cairo, Alexandria and *Al-Mansura*. While Egypt used to export jewelry to other Arab countries for an amount of approximately 50 tons per year, this situation has changed due to several factors discussed later. Egypt now became an importer of these same countries' products. Due to market stagnation, even imports had stopped and traders started exporting gold either legally or illegally leading to an erosion of the gold stock in the country. Nevertheless, in average, the WGC had estimated the gold business in Egypt to be of about 6 billion EP (approximately US \$ 1 billion) per year.

a- Cartage Preference:

The strong European influence on Egypt has generated a split in cartage preference between 18K and the more traditional 21k. The split is about 70% and 30% respectively, with the higher cartage being mainly preferred by people living in rural areas.

Bracelets occupy the largest market share with an estimated 70-100 tons produced per year, the majority in 21K. Most popular designs are produced at 21k while Pharaonic designs are produced mainly for tourists and not for the local market. Necklaces are made of 18K.

Some producers prefer to segment the market geographically and by product type. For example, modern designs come in 18K and distributed in Cairo, Alexandria, *Al-Mansura* and parts of *Asiut*. Sea-inspired products come in 18K and are distributed in *Sharm Al-Shaikh* and Hurgada. Pharaonic designs (18K) are distributed in Luxor, Aswan, the Pyramids area and in *Khan Al-Khalili*. Folkloric designs (Sha`abi-21K) are distributed in rural areas and Upper Egypt². Gems and precious stones are distributed in downtown area, specifically *Abd Al-Khalik Tharwat* street, and other neighborhoods like *Muhandisin* and Heliopolis .

² Upper Egypt includes Southern governorates of Egypt. Name is given because of the flow of the Nile from South to North.

While the manufacturing and the sales market used to be concentrated in the area of *Khan Al-Khalili*, it is now spread all over the country. "Products now are provided where demand exists"³, an interviewee had commented on this phenomenon. Further, competition had led to the spread of market activities for traders seeking new and uncovered geographic regions providing easier access to their consumers.

b- Consumer Behavior:

Even though there is a substantial tourist industry in Egypt, mainly from Europe and other areas in the Middle East, the jewelry industry has not been able to tap this sector efficiently. The main consumer remains to be that of the local market.

It is very important to note that the driving force behind the majority of jewelry purchases in this market is "store of value" concept. Egyptians believe that gold is a source of security for the future, protection from future uncertainties. In the metropolis, wedding related gifts and those of other occasions (such as Mother's Day) are mainly presented in jewelry form.

In fact the "store of value" concept, due to its importance in the population culture, had pushed the government to enforce the stamping of the products, which was optional earlier. That was aimed at protecting the consumers who believe in jewelry as a strategic life support element.

1-5- Production:

The discussion of the gold production shall proceed at two stages; first is the locations of production; and second is the specifics of the production process.

a. Location of Production:

Traditionally, the production of jewelry was exclusively concentrated in the *Khan Al-Khalili* area where the Jews and some Armenians manufactured jewelry decades ago. While still about 70% of the jewelry production is in *Khan Al-Khalili*, factories and workshops are now widespread in other parts of the country (four factories at *Al-'Ubur* City, two in 10th of Ramadan City and small factories in Alexandria and *Al-Mansura*). It is important to note that the Stamping Authority is planned to be relocated at *Al-'Ubur* City. The consequences of such plan will be discussed later in the research. The move of large manufactures to new cities on the

³ Ahmed Ibrahim, personal interview, April 2004.

outskirts is mainly to have larger workspace for cheaper price but more importantly to enjoy tax exemptions offered by the government to producers in such new cities.

Agglomeration is an important ingredient for the success of this industry, as one manufacturer has expressed. It provides means to exchange information about the industry and leads to its development. While *Khan Al-Khalili* provides this important element, nevertheless, an increasing number of non-compatible activities break the homogeneity of the cluster, which will be scrutinized in the following section. The wholesale of onions, olives and lemon are among some of these activities. Further, the spread of production in the new cities breaks the agglomeration concept and fragments the clustering morphology of the industry.

b- Specifics of the Production Process:

Before getting into the specifics of the industry and its problems, it is important to note that the way factories distribute their products is different from those of other industries. What happens in the gold industry in Egypt is that wholesalers of jewelry bring to the factory old jewelry (recycled) at certain cartage and exchange it with factory products of the same weight and pay only the fees of manufacturing in cash for that amount.

In general, the production of jewelry goes through different processes starting with the design and ending with the polishing of the products. Stamping usually occurs before finishing the products. Factories and large workshops usually encompass the various activities of the production process such as design, casting, wax and rubber mold modeling, and stone setting if any.

Some workshops in *Khan Al-Khalili* specialize in one of the previously mentioned production processes, specifically casting, and stone setting. There are also activities such as “assaying” which is to purify the gold (10-15 workshops) and also “duster” or *Tarab*, which is the activity of extracting gold from dust in workshops and factories resulting from polishing the products. *Shishnaghi* is another independent profession where the cartage is being checked for manufacturers.

According to the informants, the production process lacks qualified designers. Products in the mainstream manufacturing industry are based on foreign designs found in catalogues. Despite the fact that some Egyptians have developed their own lines in design and production at a very small scale, their links with the mainstream

industry is very limited. A highlight on this form of industry will be presented at the end of this section.

1-6- Employees and Knowledge Transfer Mechanism:

Almost all employees working in this industry are Egyptians. With the increasing lack of qualified and talented workers, large factories started importing employees mainly from India and Thailand. Government regulations limit the hiring of foreign workers with one employee for every 10 employees working in the factory and for whom social insurance is paid. Considering the informal work environment of this industry where rarely an employee has insurance, the hiring of foreign workers is unattainable except for established factories. Smaller manufacturers believe that the government should ease its regulations in this regard because foreign workers, in their belief, would upgrade the skills of local workers and help the industry to develop. The employment in this industry can be analyzed through the following topics:

a- Sources:

Most employees in this industry are the offsprings of older industry workers, relatives or friends of already working employees. It is very rare to find an outsider with no relatives in the industry who would get into it in order to learn and progress. Therefore, the industry remains, to a large extent, a closed community. In the past, large numbers of children used to join the industry at a younger age due to the lack of education awareness. They started learning so that at the age of 20 they would become skilled professionals. Now with the increase of education awareness, few children join the industry and older people who join are usually unskilled and/or too old to learn the techniques of the profession. That might be one of the reasons for the deterioration of skills in this industry in Egypt.

Another problem that faces the employment in the industry occurs at the higher management positions in factories. The sons of factory or workshop owners, who inherit the business from their fathers are mainly university graduates who know very little about the industry. This leads to damaging consequences: failure of their business and eventually the industry in general.

b- Level of education:

The majority of the work force is illiterate or has very little education that is mainly due to the employment market entry process as described above. This fact

affects the industry negatively especially with the excelling similar industries in the Arab and foreign countries based on science and technology.

c- Knowledge Transfer Mechanism:

There are no specialized training centers or educational institutions for jewelry making in Egypt that could generate highly trained and qualified employees for the industry. The knowledge transfer across employees and through generations is mainly done by what could be called “learning by doing”. Smaller trainees first observe how work is done in the factory or the workshop while they do trivial activities such as cleaning or transporting materials and products. The following step is that they sit next to a trained employee to follow the mechanisms of the profession. If they are smart and talented they learn fast and get promoted quickly until they become professionals in a specific stage of the production process.

The problem in this learning mechanism is that older and experienced employees do not disclose all information to the new ones, afraid of replacement due to the lack of employee safety nets or unions. Hence, talented and professional workers pass away without handling over the secrets of their profession, which then leads to a dramatic loss of overall talent in the industry.

d- Salaries

Salaries range from 250-300 EP for younger employees with trivial activities and between 2000-5000 EP for professional employees according to their skills and experience. Salaries for imported employees range from US\$ 800-1200 in addition to accommodation and food expenses. It is important to note that factories importing employees from abroad usually pay about \$ 1000 to the recruiter abroad in addition to the charges to import them such as travel expenses.

e- Employees Turnover Rate:

Recruiting skilled employees or those who have learned a special technique in a factory or a workshop is very frequent from competing rivalries and has negative consequences on the industry. Competition sometimes leads to non-ethical attitudes in order to attain higher market share and sometimes monopoly over a specific sub-market in the industry. While some believe that this employment turnover is positive leading to dissemination of knowledge in the industry, others believe it is unethical and causes distrust.

1-7- Marketing and Sales:

The majority of workshops and even large factories still follow the workshop attitude and traditional sales techniques. No marketing or professional sales services are provided by gold manufacturers or traders except for one or two factories in the whole industry.

The 4Ps (Package/Product, Promotion, Price, and Place/Physical distribution location) of marketing are practiced informally and by the sense of traders rather than being based on scientific methodologies in the mainstream of the industry. Further, sales practices and techniques are traditional and sometimes humiliating and lead to the development of bad reputation to the industry and often mistrust of the consumers, as mentioned by some interviewed consumers.

1-8- Government's Role and Management of the Industry:

The presentation of this point shall proceed by first discussing the laws and regulations governing the gold sector. That will be followed by a presentation of the role of institutions managing the industry and their efficiency. Information on laws and regulations are mainly from WGC's fact sheet.

a- Laws and Regulations in the Gold Sector and the Government's Role:

Import tariffs:

- On Bullion: dissolved into 0% customs, 0.5 % service charge, and 1% advance payment on trade profits (to be deducted from year end taxes).
- On Jewelry: divided into 10% customs, 10% sales tax, 3% service charge, and 1% advance payment on trade profits (to be deducted from year end taxes).

Stamping Authority Fees:

- On Bullion: 30 EP on each Kilo.
- On imported Jewelry: 0.6 EP on each gram.
- On locally produced Jewelry: 0.2 EP on each gram.

Sales Tax:

- Sales tax is fixed: 18k and below pay 2.00 EP per gram and 21k and above pay 1.25 EP per gram.

Despite the government's attempts to control the industry and protect consumers through the previous regulations, the accumulated charges raise the price of gold to levels that cannot be sustained by the market. Illegal practices in imports and stamping led to the deterioration of fair competition and pushed many outside the business.

b- Institutions Managing the Industry:

The gold industry recently developed a sector in the Industries' Union or *Ithad Al-Sina`at* to represent manufacturers of the industry. Many believe that the majority of the representation institutions do not play an efficient role but only seek private interests. Others believe that even with the good intentions of improving the condition of the industry, major factors like the lack of coordination, communication and mistrust among manufacturers themselves or between manufacturers and the government render any attempts for improvement unrealistic. The government virtually refuses to provide authority to industry representation institutions to shape the market. It is mostly driven by its sense of responsibility towards consumers from one side and their imbedded culture of central planning authority of the socialist regime from the other. This is nurtured by the education of the Revolution's government in 1952.

Employees in this industry do not have a union to speak for them and protect their rights, which leads to the deteriorating work conditions and safety for the majority. Due to the mistrust in the system, wealthy manufacturers are reluctant to pay the membership for the industry's sector in the Industries' Union believing that it is a waste of money. In brief, as an interviewed representative of the industry had put it, "it is an industry that has no ruling entity"⁴.

The previous points have described the specifics of the mainstream of the gold industry in Egypt. The industry embraces some sub-specialty among which is the market of individual artisans, designing and manufacturing jewelry themselves. They will be the subject of the following point in this section due to their importance to the future of this industry.

⁴ Ahmed Hassan, personal interview, April 2004.

2- Individual Producers “Artisans” in the Gold Industry:

While the analysis of the industry had so far focused on its mainstream, it is necessary to highlight a specific specialty within the industry, that of artisans. They are mainly highly educated people who shifted their career at some point to learn and become specialized in jewelry manufacturing. While limited in number, their skills and knowledge are necessary to learn and pass to future generations in order to upgrade the design and skills in this industry.

These professionals mainly work with their own hands in a small apartment or even in a room in their place of residence. They subcontract some activities to workshops in *Khan Al-Khalili* such as casting and stone setting. They usually purchase the raw material and equipment from *Khan Al-Khalili*. Those who get a chance to travel abroad purchase some basic equipment and sometimes stones.

Those artisans depend on galleries and expositions they organize or participate in to sell their products, which are usually non-repetitive in design. Some of them are sometimes hired by the Ministry of Culture to produce replicas of Pharaonic jewelry for Egypt's expositions in foreign countries. This is due to the trust in their taste and the high quality of their products.

Artisans of that type are self-funded. They are not supported by any financial institution, which weakens the possibility of expanding their business. They learn manage, work, market and fund their business individually. While some have learned the art abroad, the majority has learned it from *Khan Al-Khalili* craftsmen, and then they later developed their own techniques. This subspecialty in the gold industry needs sponsors to provide them with raw material and institution to handle their marketing and sales activities so that they could focus more on what they do best, design and crafting jewelry.

* * * * *

II- Khan Al-Khalili: “An Economic Cluster for Gold Industry”

In fact *Khan Al-Khalili* is not an accurate description of the economic cluster of gold industry in Cairo. As it will be demonstrated later, the concentration of the industry covers large segments of *Khan Al-Khalili* and *Al-Khurunfish*, two *Shiakhas*⁵ that fall in the middle of *Al-Gammaliyyah* district in the Old Cairo region (see figures 2-3). However, the cluster will be referred to as *Khan Al-Khalili* as it is known for both people in the industry and their consumers.

The study of *Khan Al-Khalili* is necessary since it represents, according to informants from the industry about 70% of the total production of jewelry in the country. The rest is mainly produced in the factories at the industrial sectors of *Al-Ubur* and 6th of October cities. The area has also been known as a center for consumers of gold jewelry not only from Cairo but also from various parts of the country, the Arab world especially the Gulf region as well as foreign countries. Being the center of such a strategic industry, problems facing *Khan Al-Khalili* would definitely affect the industry at large. Hence, the study aims at identifying the characteristics of the cluster socially, economically and in terms of its urban structure in order to set the foundation for the analysis of the pressures preventing the advancement of the industry, which will be presented in the following section of the research.

The study of this economic cluster will proceed with a demonstration of the reasons behind considering the *Khan Al-Khalili* area an economic cluster for gold industry. Data used in the analysis is mainly from CAPMAS in addition to the information presented in the interviews with manufacturers in the *Khan*. This study will present an analysis of the social, economic and urban structure of the area leading to the conclusion of considering it an “ economic cluster”. The section ends with a presentation of the main points mentioned in a questionnaire prepared for the stakeholders in the industry: manufacturers and employees; consumers; and traders and retail workers. That presentation aims at exploring the industry in the *Khan* through the eyes of its stakeholders.

⁵ A *Shiakha* is a subdivision of the district.

1- Characteristics of Khan Al-Khalili Cluster:

1-1- Social Profile of the Cluster:

The study of the social profile of the cluster will address the characteristics of the population age distribution pyramid for *Al-Gammaliyyah* in general and of both *Shiakhas*; *Al-Khurunfish* and *Khan al-Khalili*, and also of their residents' educational levels and occupations.

a- Social Structure :

- *Al-Gammaliyyah*:

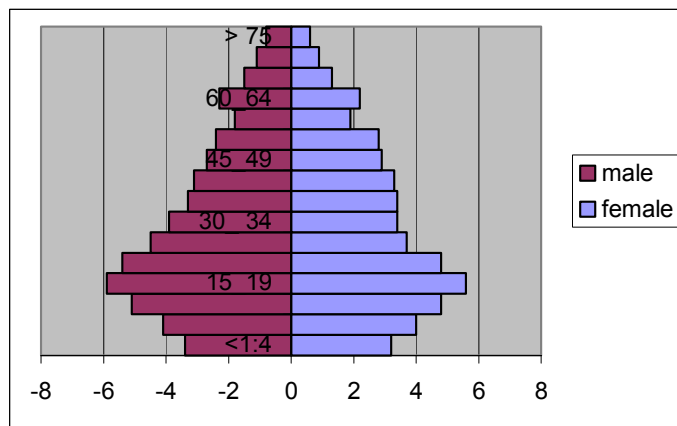


Fig. 4 – Population Age Distribution Pyramid for *Al-Gammaliyyah* District

The age distribution in the population age distribution pyramid of *Al-Gammaliyyah* is very much similar to that of other urban districts of the country, characterized with larger segments of the population falling between 15-25 years old; also known as a 'young population pyramid'.

- *Al-Khurunfish*:

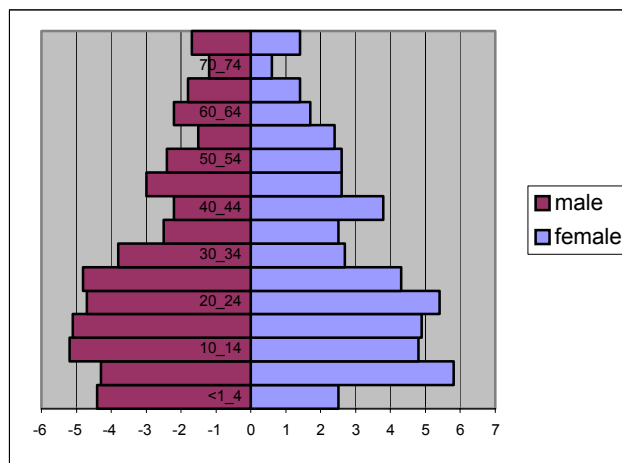


Fig. 5 – Population Age Distribution Pyramid for *Al-Khurunfish*

The age distribution of *Al-Khurunfish* shows that the larger portion of the population falls between 15-30 years old, which is indicative of a large labor force. Further, the increasing number of people between 70 and 75 years old or older indicates that these are old districts and they still preserve their old community and its people.

- *Khan Al-Khalili*:

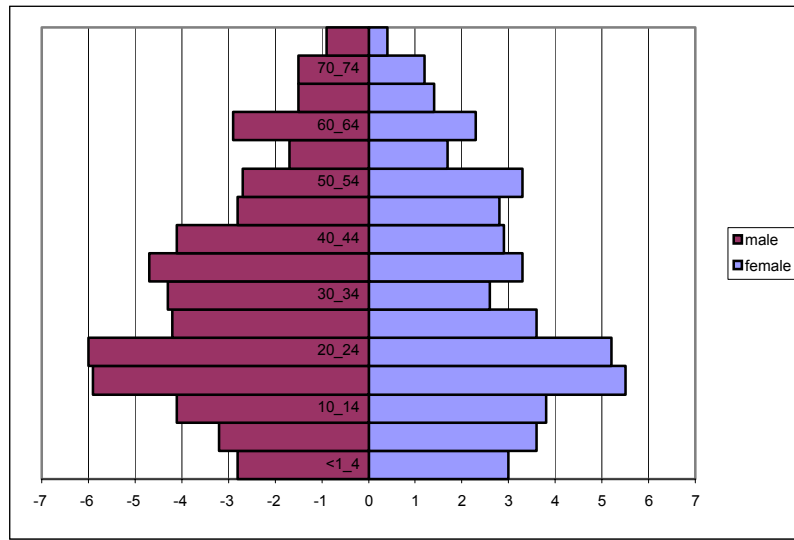


Fig. 6 – Population Age Distribution Pyramid for *Khan Al-Khalili*

The age distribution pyramid of *Khan Al-Khalili* shows an increase in the number of residents between 15-30, which demonstrates the existence of a large labor force. Further the relatively large number of older people (between 60-65 years old) demonstrates the presence of an old community in this historic region. The difference between the large percentage of elderly in both *Shiakhhas* (70-75 in *Al-Khurunfish* and 60-65 in *Khan Al-Khalili*) can be justified by the fact that most of the tourism and economic activities related to it fall in *Khan Al-Khalili* which leads to relatively less stable communities and higher turnover of residents.

In general, statistics indicate that the area is more of a production cluster than a pure residential neighborhood.

b- Level of Educational:

Al-Gammaliyyah district can be considered housing more of lower middle and lower income groups in the society. Hence, the level of illiteracy is expected to be relatively high. According to figure 7 demonstrating the distribution of the population through the different educational levels, an illiteracy of approximately 30% for the

whole district can be considered high, however lower than the country average of 42.3%⁶.

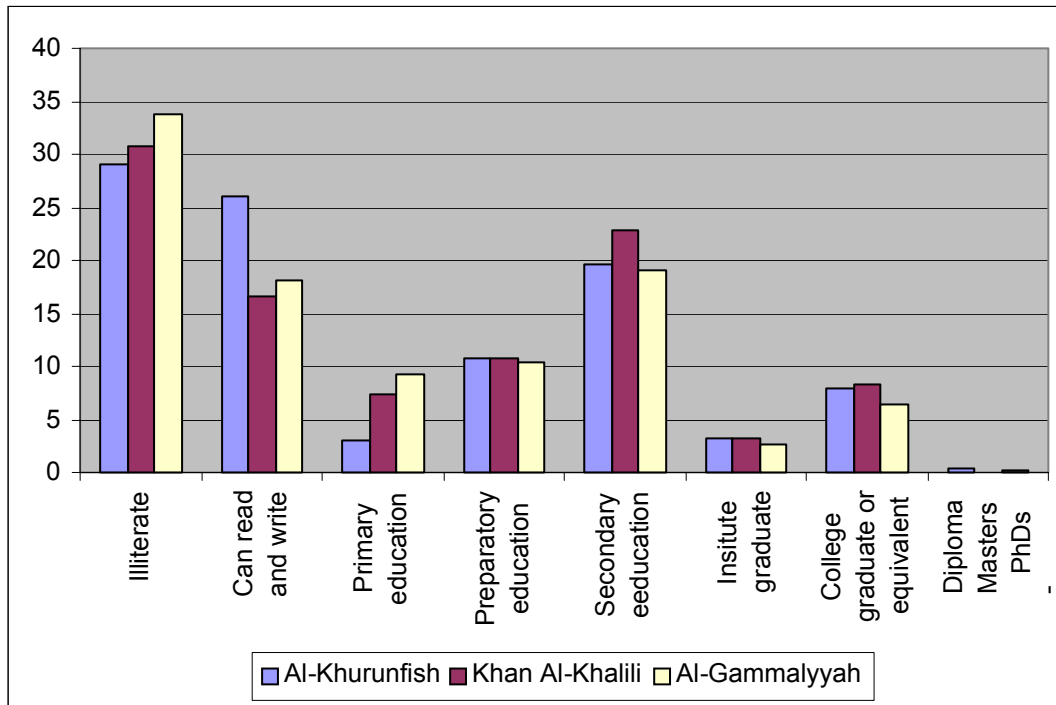


Fig. 7 – Distribution of the Population Through the Different Educational Levels

Both *Shiakhas*; *Khan al-Khalili* and *Al-Khurunfish* follow almost the same pattern regarding the level of education of *Al-Gammaliyyah*'s inhabitants. However, it is note-worthy to state the following:

- The percentage of those who can read and write in *Al-Khurunfish* is relatively higher than those of both *Khan Al-Khalili* and *Al-Gammaliyyah* in general. This is because *Al-Khurunfish* is occupied by industrial and trade activities more than *Khan Al-Khalili* as it will be shown later in the economic analysis of the cluster. Hence rises the percentage of those who can read and write due to the necessity of such basic skills in the business.

⁶ CIA, "The World Factbook 2004," published on the URL: <http://www.cia.gov/cia/publications/factbook/geos/eg.html#People>

- The percentage of those with secondary education (e.g. industrial education) is relatively high in the three geographic entities, which demonstrates the concentration of manufacturing activities.
- The percentage of college or university degree graduates is much lower which reflects the nature of the population focusing more on traditional manufacturing requiring more skills than sophisticated scientific knowledge.

c- Occupations :

From what has been presented on the community of *Al-Gammaliyyah* and its *Shiakhahs*, the types of occupation of the cluster’s residents are predictable. Figure 8 shows high percentages of residents working in trade or as craftsmen. It can also be noticed that the relatively larger percentage of the population in *Khan Al-Khalili* is working in trade, especially when compared with *Al-Khurunfish* and *Al-Gammaliyyah*. That can be justified by the existence of large concentration of bazaars in this area as it is presented in the urban studies of the cluster.

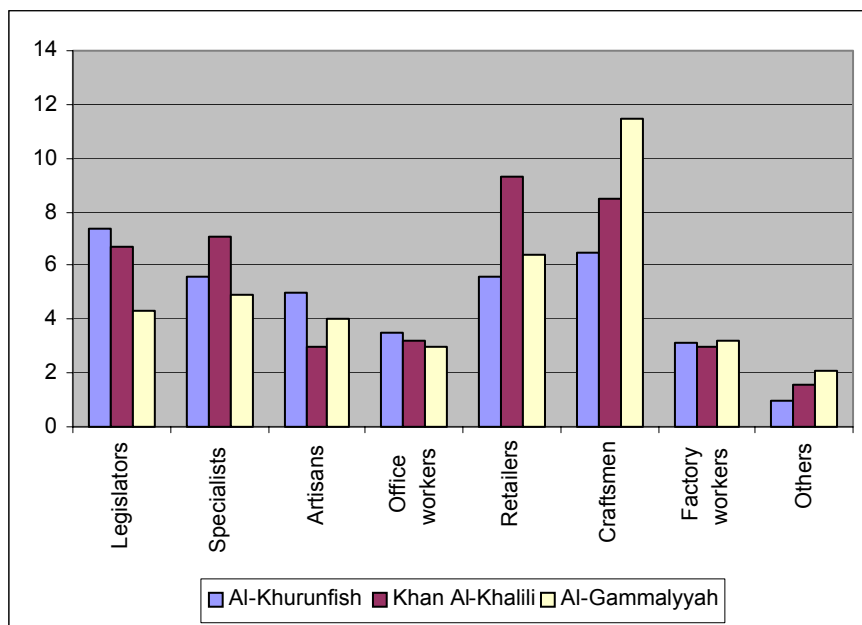


Fig. 8 – Distribution of the Population Through Occupations

What is also noticeable is the relatively high percentage of the population working in religious legislation due to the presence of a number of *Al-Azhar*

institutions in the region. Further, the existence of a number of artisans and craftsmen strengthens the idea of the region being a concentration of low-tech industries and hand-made products.

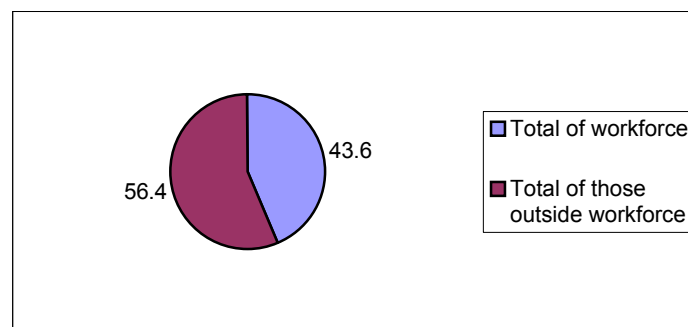
1- 2- Economic Profile of the Cluster:

Due to its history and traditional concentration of economic activities, *Al-Gammaliyyah* district enjoys a considerably low unemployment rate of 3.5% compared to a national percentage of 9.9 %⁷. Further, the actual dependency level (total population divided by the actual working population) is considerably low as it reaches 1.4 while the national level is 3.57⁸. That proves the strength of the area as an economic center.

The economic profile of the gold industry cluster will cover the following points: unemployment rate and dependency; and distribution of the population on the economic sectors.

a- Unemployment and Dependency⁹ :

Khan Al-Khalili and *Al-Khurunfish* follow the same pattern of *Al-Gammaliyyah* in what concerns unemployment rate and dependency. *Khan Al-Khalili* enjoys an unemployment rate as low as 3.6% and a dependency rate of 2.9, while *Al-Khurunfish* presents relatively higher numbers at 4.5% and 3.5 respectively.

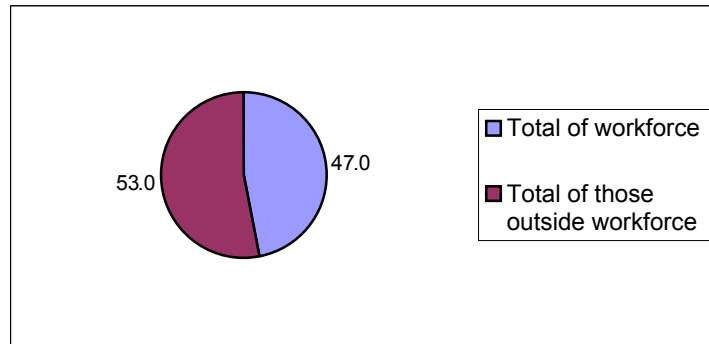


Al-Khurunfish

⁷ CIA, “The World Factbook 2004,” published on the URL: <http://www.cia.gov/cia/publications/factbook/geos/eg.html#People>

⁸ Ibid.

⁹ Statistics are based on information from CAPMAS processed to give the unemployment and dependency rates.



Khan Al-Khalili

Fig. 9 – Percentages of Workforce

The low unemployment rate and dependency in both *Shiakh*s indicate the strength of economic activities in the area and that they are mainly economic production centers rather than residential settlements.

b- Population Distribution on the Economic Sectors :

Due to the nature of the economic region of *Al-Gammaliyyah* and the gold industry it houses, the main workforce would predictably occupy jobs in one of the following economic sectors: manufacturing, trade (wholesale and retail), and services. Indeed in *Al-Gammaliyyah* and both *Shiakh*s the majority of the population occupies these sectors.

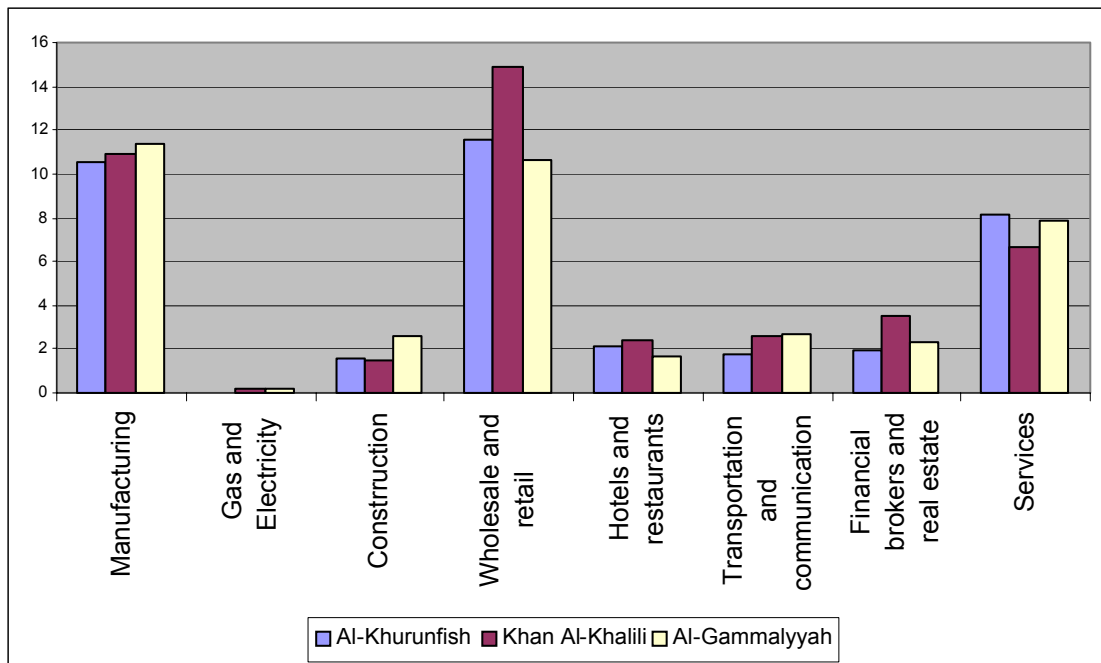


Fig. 10 – Population Distribution According to Economic Activity

In *Khan A-Khalili* the percentage of the population working in trade is larger than *Al-Khurunfish* due to the existence of a large number of bazaars.

1-3- Urban Profile of the Cluster:

The gold industry falls in a sector of the city of Cairo that is highly dense, not only in population but also in historic monument. The aim of analyzing the urban profile of the area is to test the pros and cons of such setting to the industry and its progress, which shall be presented in the following section of the research. The study in this regard focuses on the following: urban fabric, buildings' characteristics and more importantly land uses with a special focus on gold related functions.

a- Urban Fabric:

The gold industry area carries the typical characteristics of the urban fabric of most old Islamic cities: the narrow streets, their organic structure with the existence of a main street linking entrances through the walls surrounding the old city (that is *Al-Mu`iz street*), and the use of solids and voids in plan to establish privacy and security (see figure 11).

Streets vary in width between 5 meters like *Gawhar Al-Qa'id* street and *Al-Mu`iz street*, to 60 cm, in the small alleys which one of them constitutes a main entrance from *Al-Mu`iz* to the workshops in *Al-Khurunfish*. It should be noted that there are three gates *Bawaba*, as they are known for people in the area, from *Al-Mu`iz street* to the conglomeration of shops and workshops at *Al-Khurunfish* one of them leading to the Jewish Alley *Harit Al-Yahud* which was given that name because of the high concentration of Jews in the area working in jewelry. There are three synagogues in the area-another proof of the large concentration of Jews in the area historically (see figure 12).

The area also embraces the Stamping Authority, which plays an important role in the industry, as it will be discussed later in the research. It should be noted that the government is about to relocate the Stamping Authority to Al-`Ubur city using a fund by the Italian government.

b- Building Characteristics:

The building characteristics in the area would be analyzed through the following: building conditions, building heights and construction systems.

- Building Conditions:

The drawing in figure 13 demonstrates that the majority of the buildings in the area are in moderate condition. The remaining building stock is either in a good or a deteriorated condition.

The distribution of the good and deteriorated condition of buildings does not follow a specific pattern but rather a random one. It should be noted that compared with the building construction system drawing in figure 15, most of the deteriorated buildings are wall bearing structures, somehow expected because of the age of these buildings and lack of necessary maintenance.

- **Building Heights:**

The majority of the buildings in the area range between 2 and 3 storeys high (see figure 14). An equal number of buildings are either one storey, or four storey or higher. The variation of building heights is mainly due to the changes that occur to the building regulations over the many years of this area's history in addition to the existence of many Islamic monuments, which cannot be touched and are preserved with their old condition, mainly one or two storey high.

- **Construction Systems:**

Most of the buildings in the area are wall-bearing structures emphasizing the history of the area (see figure 15). A small percentage of the buildings are classified as skeleton structures. There are new buildings replacing the old ones that have either been demolished for their unsafe conditions or crashed during the earthquake that hit the country in 1992. Naturally, the height of these new buildings exceed 4 storeys in height applying different building regulations than the rules and techniques used during the Islamic periods in Cairo. There is only one building in the cluster made of clay that still exists.

c- Land Uses:

The analysis of the land uses in the studied gold industry cluster in Cairo is divided into three phases: first, the presentation of the historic buildings within the virtual boundaries of the proposed cluster; second, the land uses at the ground floor level; and third, the land uses at the first floor level of the buildings within the cluster.

- **Historic Buildings:**

The cluster embraces 43 officially registered monuments all from different Islamic periods that Egypt witnessed through out its history (see figure 16). Some of them date back to the Fatimid (969-1171) period and others to the more recent

Ottoman period (1517-1917) and beyond. This rich historic presence in the area definitely strengthens the exposure of the industry and the traders to frequent visitors. However, this richness can be seen as a burden on the expansion of the industry and reciprocally the industry's presence can be viewed as a threat to the historic monuments. Some have already collapsed due to the negligence of neighboring workshops seeking expansion by engraving through the bearing walls of the old structures. More detailed analysis of the coexistence of the industry and the historic monuments will be discussed in the following section of the research.

▪ **Land Uses at Ground Floor Level:**

The cluster enjoys a large variety of activities at the ground floor level. Definitely the land value in the area, which reaches an astonishing 30.000 EP/sq.m. (approx. \$ 4800) higher than land value at *Al-Muhandisin* and *Ma`adi*¹⁰. An amount of 100.000 EP/sq.m. is sometimes heard of for window displays and small galleries on the main entries to the area. Activities range from gold and silver retail and bazaars, which occupy the majority of the buildings at the ground floor level, to services, and other retail activities. A very little number of gold workshops occupy the ground floor level, obviously for land value reasons (see figure 17).

The following notes about the geographic distribution of activities of the cluster at the ground floor level are important:

- Bazaars occupy the south-eastern side of the cluster due to the exposure to tourists who usually access the area from that side, the square in front of *Al-Hussayn* mosque and *Al-Azhar* square.
- Gold retail activities are more concentrated at both sides of *Al-Mu`iz* street, the main artery of the old city (Al-Qasba). The stores are more concentrated at *Al-Khurunfish* side of the street. According to informants most of the gold jewelry traders of *Al-Mu`iz* street have shifted their focus to wholesale due to the economic condition and slowing economy.
- Silver retail is more spread through the southern side of the cluster more towards the tourist concentration off *Al-Hussayn* square obviously for their relatively cheaper price for tourists than gold products.

¹⁰ *Al-Muhandisin* and *Ma`adi* are two posh residential areas located at the outskirts of central Cairo.

- Retail of products related to gold and silver manufacturing is spread horizontally in the central zone of the cluster.
- Services are spread over the cluster but obviously disappear from the southern side of *Al-Mu`iz* street due to high concentration of gold retail activities and extremely high land values.
- As it was mentioned before, workshops disappear at ground floor level due to land value

- Land Uses at First Floor Level:

The analysis of land uses at the first floor level mainly focuses on activities related to gold and silver manufacturing and feeding industries with all other activities grouped into one category (see figure 18).

The following can be noted on the geographic distribution of activities at the first floor level in the gold cluster in Cairo:

- The majority of the gold and silver workshops are distributed along *Al-Mu`iz* street, at its southern side and radiating perpendicularly from it towards the east and the west, always at the southern side of the cluster. The concentration of the workshops in such a pattern is natural in order to achieve proximity to the distribution channels (i.e., the retail shops of gold and silver products).
- The workshops of feeding industries are horizontally spread over the central part of the cluster. Their location seem logical due to their indirect relation to the retail activities and the land value that increases towards *Al-Mu`iz* street.
- It should be mentioned that residential quarters in both *Shiakhas* within the borders of the cluster (which does not cover their entire areas), are more concentrated in the northern side of *Khan Al-Khalili*.

Generally speaking, land use pattern in the gold cluster of *Khan Al-Khalili* reflects a logical distribution of activities affected by four main factors:

- 1- Proximity to directly related functions: functions and activities where distance is an economically critical factor and from a security perspective are close to each other.
- 2- Land value: the price of the square meter affects the distribution of the functions in the cluster: the presence of retail in higher land value areas; workshops for gold and silver products in upper floors but close

to the retail shops; feeding industries further away from the industry's central area and the services spread over the whole cluster pending on their capital return in relation to their location to the central area (e.g., hotels are more towards the center while food selling stores are far from it).

- 3- Tourist concentration: Due to the regular presence of tourists in the south- eastern part of the cluster because of the existence of a major street and a square for tourist buses to park (*Al-Hussayn* square), bazaars and silver retail stores are concentrated in the area. Gold retail stores are rather away as the product is less marketable to tourist than silver and folkloric products sold in the bazaars.
- 4- Accessibility to the cluster: Due to the presence of *Al-Azhar* street, a main transportation artery in the central area of Cairo and through which most of the consumers and visitors to the area reach the cluster, the center of gravity of most consumers' related activities, specifically gold retail, are located to the south, where also land value increases. Other activities less related to the public and with less capital return are located further north.

Obviously from the shown set up, the Khan al-Khalili area constitutes an obvious economic cluster with gold and silver production as its primary industries with a number of feeding industries and trading supporting the main production system.

2- The Industry as Viewed by its Stakeholders:

A questionnaire has been prepared to the different stakeholders of the gold industry in Khan Al-Khalili cluster: visitors, retail business owners and employees, manufacturing business owners and workers. The aim was to establish an overview of the industry through its stakeholders in order to complement the work of the researchers. The results of this questionnaire have been disseminated in the various sections of the research. However, it is important to present them explicitly in this section dedicated to Khan Al-Khalili cluster.

2-1-Visitors' views:

The questionnaire was answered by 25 Egyptians and 15 foreigners. Their answers indicated the following:

- Most of the visitors come to the area once a year, which indicates the low frequency of visits. That might be due to the lack of attractiveness of the area due to its urban condition or the economic status of the country reflecting on consumption.
- Nevertheless they agree that *Khan Al-Khalili* is successful as an economic cluster. The reasons for that answer might be the diversification that exists in the area from retail to tourism to the agglomeration of manufacturing activities, which rarely occurs, at least, in Egypt.
- Most visitors use public transportation to the area and few use their cars, which might be indicative of either the socio-economic group that visits the area or the limited parking space that prevents people from using their private vehicles.
- More than 65% of the visitors' sample agrees that the urban condition of the area is suitable for the functions it embraces because it kept its historic flavor. Those who disagreed with this statement justified their answer with the existence of narrow and unclean streets, unsuitability of co-existence of markets and historic monuments and the existence of modern style buildings alien to the overall pattern of the area.
- The majority of visitors believe that the concentration of gold industry in this area is due to the presence of the industry historically (i.e., cumulative causation principle), while a small number believe the reason is the presence of tourists in the area. The first reason is more convincing as it was presented earlier in the study and the second reason might be a reinforcing element rather than an essential one.
- Most of the visitors agree that there is not enough information on the area, which means lack of exposure and marketing activities.
- Most of the purchases in the area for visitors are of silver products followed by gold products, followed by more diverse souvenirs from bazaars. The reason is that silver is a cheaper material than gold, more attractive to tourists who don't spend much money on precious souvenirs.

- The two main reasons mentioned by visitors for choosing the *Khan Al-Khalili* area for their shopping activities are the quality of products and prices compared to other places in Cairo. Diversification, proximity, and the originality of the products were also mentioned.
- Among the strengths of the area mentioned exclusively were the agglomeration and diversification of stores, the historic monuments, the originality of the place, its religious character, and the presence of bazaars and handcrafters.
- The weaknesses (or negatives) mentioned were mostly related to the untidiness of the streets, the unprofessional attitude of sales personnel, the inconsistency of prices, the threat caused by vehicles in the small streets of the area, lack of order and parking space, and the presence of modern style buildings.
- Suggestions were mainly reactions to the weaknesses mentioned in the previous points such as the prevention of vehicles in the area, attention to cleanliness and the area's infrastructure, improving the attitude of sales personnel, adding signs to the area, providing places to rest, preservation of old buildings, widening the streets and the preservation of historic buildings.

2-2-Manufacturing Business Owners and Employees:

The following notes were mentioned in the answers of 19 manufacturers and employees to the questionnaire:

- The majority of workers joined the industry through a relative already in the profession, which proves that it is a somewhat closed community industry.
- The technology used by the majority is of low and medium levels and their markets are mainly concentrated in the *Khan Al-Khalili*.
- Most manufacturers serve the mainstream of the industry and sell their products as wholesalers.
- The majority of their raw material is from recycled jewelry (*Qasr*).
- The majority of workers (either business owners or employees) believe that political and economic factors affect the industry negatively, while they split on the social factors. Urban factors did not seem influential for the majority.

- Among the weaknesses mentioned were the soaring prices of manufacturing equipment and materials due to currency devaluation, lack of marketing and fragmentation among manufacturers and lack of a common organization.
- Points of strength varied but without having a significant point as highly illuminated. This proves their belief that there isn't really one particular strong point in this industry given its current state. Among the points mentioned were the importance of specialization, level of consumption in the market, and the good social image of workers in this field.
- The major problems that constituted concern for workers were the probable relocation of the Stamping Authority and the monopoly exercised by large manufacturers and factory owners on segments of the market.
- Suggestions focused on business development mainly through management training and skills upgrading. Other suggestions focused on providing transportation for employees and parking spaces. An important suggestion proposed the merger of a group of small workshops into a larger manufacturing unit to compete with larger manufacturers.

2-3-Retail Stores Business Owners and Sales Personnel's View:

From a sample of 20 retail business owners and employees in trade who answered the questionnaire, the following notes were withdrawn:

- The majority of retail workers joined the industry through relatives in the same field. That might be indicative of either lack of professionalism in the industry in seeking workers with high sales skills from the country's workforce, or because of the importance of honesty and confidence necessary when dealing with valuable products, hence store owners prefer hiring people they know rather than experimenting with strangers.
- Markets for stores are manifested in the Egyptian population from Cairo and the northern and southern parts of the country (cities and villages), in addition to Cairo's residents. A small number of stores

targets tourists and very few sell to visitors from the Arabian Gulf countries. Some retailers sell recycled jewelry to workshops.

- The majority of retailers in *Khan Al-Khalili* are wholesalers. The small retail shops either closed their business or developed wholesale business instead. This happened as a result of the changes that occurred to the market in the last few years manifested in sales tax and tariffs charges, currency devaluation, market softening and competition.
- Honesty is among the main qualities of an employee to be hired in this industry as a retailer. The educational level is not of major importance while the knowledge of a foreign language is an advantage, language could be learned through practice without getting any education.
- Retailers agreed that current political and economic factors affect the market negatively. They split on urban and social factors and their effects on the industry.
- Among the weaknesses seen by retailers in the area are the increasing prices as well as thefts and deteriorated infrastructure.
- Among the strengths of the *Khan Al-Khalili* area were the diversification of products, exposure, and agglomeration of industries.
- For improvement, retailers suggest the following ideas: the prevention of vehicular access to the area, cleaning and maintaining of streets and buildings, upgrading the infrastructure and providing parking spaces for their clients.

This section of the research focused on *Khan Al-Khalili*. First it analyzed its social, economic and urban characteristics as a cluster for jewelry production, and then it demonstrated its structure through the stakeholders of the industry in contact with the business in the area.

* * * * *

III. The Gold Industry under Pressure:

Thus far the research has presented the status quo of the industry in general and of the economic cluster of *Khan Al-Khalili* in particular. This section attempts to highlight and classify the various factors affecting both the industry and *Khan Al-Khalili* cluster. Further, it presents a S.W.O.T. analysis of both.

1. Factors Affecting the Industry:

The factors affecting the gold industry as it was presented earlier are numerous and can be classified as: socio-cultural, economic, political, and urban. Each of these groups affects the industry differently:

a- Socio-cultural Factors:

The socio-cultural effects on this industry can be presented in the following points:

- The fact that the employment occurs through social networks mainly leads to a very closed community where talent, which should be an important ingredient of this industry, is not easily caught within this network. The existence of such networks while providing security to some extent, prevents the industry from the presence of talented people who might find difficulties mingling with that closed community.
- Trust is a crucial element in the gold business. Traders and manufacturers do not usually use receipts or checks, especially in the *Khan Al-Khalili* cluster. This fact might be positive to a large extent as long as the market is closed. However, for the market to expand, formal exchange mechanisms have to be adopted in order to secure the rights of the different parties.
- This business is usually family-based and with the increasing desire to pursue higher education by the younger generation, the sons of the business owners find themselves, at some point, in charge of their fathers' business. They, in return, might not be necessarily experienced in the field of gold industry. That could have a negative effect on the business and the industry.

- The low educational level of the majority of the employees and even of the owners of businesses negatively affects the industry and constitutes a hurdle for its development. Training based on scientific basis is necessary for Egyptians to catch up with leading countries in this industry, at least, regionally. Further the language barrier constitutes a problem for an industry that is highly affected by world markets.
- A large population of 76,117,421 (July 2004 est.)¹¹, with a cultural affinity for gold is definitely a very strong point in this industry. However, the purchasing power of the majority is very limited and other factors prevent the industry from flourishing in such a social environment.
- Among the factors that are affecting the industry is the reluctance of old, more experienced employees to transfer their knowledge to the younger generations in fear of replacement. That leads to the deterioration of skills in the industry.
- Social and religious occasions and specifically the *Mawalid*¹² according to *Khan Al-Khalili* manufacturers negatively affect the industry. With the existence of a number of these events around the year, the jewelry market seems to be affected. Masses of people from all over the country gather for the occasion and block the access to the market.
- Practices such as recruiting skilled employees from other factories or workshops raise employee turnover and develops mistrust in the industry. Some of those who act that way seek monopoly and do not intend to think creatively so as to compete.
- Public work manifested in institutions representing the industry is not taken seriously. Both business owners and employees are reluctant to form strong entities to speak for them or attempt to organize to improve the industry's status quo. This might be due to the existence of personal interests or the suspicion of any positive results those attempts might lead to.

b- Economic Factors:

¹¹ CIA, "The World Factbook 2004," published on the URL: <http://www.cia.gov/cia/publications/factbook/geos/eg.html#People>

¹² *Mawalid* is the plural of *Mulid*. *Mulid* means birthday in Arabic. It is a celebration of a holy person. It is celebrated by both Muslims and Christians in Egypt to honor their Saints. Islamic *Mulids* are regulated by the Lunar Islamic calendar.

The economic factors affecting the gold industry are internal and external, global and local in nature:

- The supply chain structure of raw materials and equipment to the industry adds to the cost of production and hence increases the price of gold products unnecessarily (e.g. the existence of importers of raw gold then wholesalers followed by small traders before the raw material reaches manufacturers). There is very little attempt to change the structure of such chains because of the weak management of the industry in addition to the regulations and tariffs that might render the prices of raw material even higher if producers try to make shortcuts to access them.
- The continuous devaluation of the Egyptian pound compared to foreign currencies adds pressure on production and sales. The rising prices affect the market since the industry is closely related to the world market and changes in currency values affects it dramatically.
- Competition with other Arab countries that developed sophisticated gold industries by injecting capital and importing hundreds of skilled labor from Asia and Europe had diminished Egypt's share of the Arab market in the gold industry. Instead of being markets for Egyptian products 15 years ago, these countries became major exporters of gold to Egypt. The loss of such markets added tremendous pressure to an already aging industry that is hardly developing.
- Access to capital for expenditure is almost non-existent. Gold loans are prohibited and bank loans come at a very high interest rate (above 15%) which, renders any feasibility study uneconomic. The lack of access to capital makes business development almost non-existent for most manufacturers and traders, which affects competition and encourages monopoly in a certain way.
- The condition of the Egyptian economy in the present time had negatively affected the industry. With a very low purchasing power and a stagnant economy, the industry is losing important element for its survival, sales revenues. With very little number of stores accepting credit cards, consumers are very reluctant to spend money as their

income hardly covers the soaring prices especially after currency devaluation.

- The government charges exporters 10% sales tax on products. That amount is withheld until the products are exported. That money is considered dead capital for a certain period and is considered a loss to exporters.
- Two critical economies flushed household revenues in later years: private lessons of school children and mobile phone bills. Informants in the industry claim that 6-15 billion EP (about US \$ 1-2.5 billion) from total household expenditures go to their children's private lessons. Furthermore, with the widespread of mobile phones, 4-5 billion EP (about US\$ 0.65-0.8 billion) goes to this industry. With the existence of a better education system and consumer awareness of the effects of mobile phones on household bills, these amounts could have been otherwise invested in more durable products such as gold. It has become obvious that the social image of household members carrying and owning a mobile phone is more valuable and prestigious than having a secure future through purchasing gold.

c- Political Factors:

Some of the dramatic factors affecting the gold industry are political:

- Despite the government's attempt to ease tariffs on importers, service charges and sales tax still constitute tremendous pressure on manufacturers and traders pushing the majority to work informally.
- When manufacturers export, they are charged 1% service for pricing from the Stamping Authority, which adds a burden on exporters.
- The stamping authority insists on stamping exported jewelry and charges 0.98 EP/gram for this process. The stamping is removed at the foreign country as they don't believe in such a practice from one side, and because stamping sometimes affects the look of the piece of jewelry from the other side. These actions add to the cost on exporters and discourage their business.
- Taxes are based on the amount of gold and not on the profit. That leads to bankruptcy if a trader or a manufacturer keeps good records.

Hence, the majority of people in the industry keep false records of their activities in order to avoid bankruptcy.

- The government does not encourage manufacturers to establish training centers that are very important to sustain such an industry where talent is a crucial element.
- While the government provides tax exemption for manufacturers in new cities, with relatively reasonable land prices (600 EP/sq.m.), they charge one million EP to connect the factory with a high power cable for their machinery and additional charges for any additional telephone line. Further, the government prevents factories from providing sleeping quarters for employees in the factory; hence the owner has to provide transportation for each employee from their residents in Cairo to the factory, which costs about 5 EP/day/employee. These additional expenses constitute a burden on manufacturers/investors who moved to new cities to reduce their overheads and sought cheaper land value to expand.
- The government, at times, takes unjustified decisions. For example a manufacturer found out that the price for importing a barrel of gypsum used in casting is 30 EP while the currently imported one from Italy costs 60 EP. Nevertheless, the government refused the manufacturer's request to import the gypsum from the US, which would have reduced the production cost.
- Political demonstrations that occur in the area affect the industry negatively. The existence of a number of important mosques and *Al-Azhar* University across the street from the cluster, affects accessibility and security of visitors and consumers. Demonstrations igniting from these two places are very likely to occur at present times due to the political unrest in the region. Conflicts in Palestine and Iraq constitute the main reason for such demonstrations.

d- Urban Factors:

As it was mentioned earlier, manufacturing mainly occurs in the *Khan Al-Khalili* area with very limited number of factories in some new cities around Cairo,

and in Alexandria and *Al-Mansura* governorates. The following factors might be considered affecting the industry:

- With the majority of workshops at a walking distance from the Stamping Authority in *Khan Al-Khalili*, its relocation at *Al-'Ubur* City will cause dramatic shifts in the economy of production as overheads in transportation and security will be needed to stamp the products manufactured in the *Khan*. It might also affect the land value of the area negatively as proximity to the stamping authority will be non-existent.
- The proximity between manufacturers and retail shops in *Khan Al-Khalili* facilitates communication and distribution of manufactured products and thus the gold production cycle processes smoothly. In fact this is one of the strongest advantages of the cluster.
- The narrow streets of *Khan Al-Khalili* cluster while providing security to the business community, prevents easy access to cars and trucks, which might be needed, by either consumers or workshops to transport heavy equipment and machinery.
- The deteriorated urban condition with the lack of environmental standards affects the work environment especially for workshops in the *Khan Al-Khalili* area.
- Land value is very high in *Al-Gammaliyyah* district and in *Khan Al-Khalili* in particular, which causes a problem for businesses to grow and expand. Further it raises overheads, which affects products' selling prices compared to other areas outside the cluster.
- The co-existence of the industry's workshops and the historic monuments next to each other, has both its merits and demerits. Workshops are unable to expand due to the presence of these valuable buildings and the latter are affected negatively by the practices and pollution caused by the manufacturing activities in the workshops.

The previous categories of factors affecting the industry should be complemented with an analysis of the strengths, weaknesses, opportunities and threats to the industry in a step towards drawing suggestions to ameliorate its current status.

2- S.W.O.T. Analysis of the Gold Industry:

It is critical to any industry to do a S.W.O.T. analysis in order to draw accurate action plans or at least recommendations for the industry's stakeholders. This point addresses the strengths, weaknesses, opportunities and threats to the industry as viewed by researchers or interviewed stakeholders.

a. Strengths:

While some interviewed stakeholders believe that the industry in its present condition has no strengths, others believe there are some. They could be classified as follows:

- Human resources are cheap. While not very qualified, training could yield to better skilled labor.
- The various civilizations that Egypt witnessed can be considered a point of strength as the industry is catering on a variety of products: Pharaonic, Coptic, Islamic and modern. Indeed the industry hasn't fully benefited from this point of strength. Perhaps a stronger marketing technique could modify the consumption behavior.
- The clustering in *Khan Al-Khalili* is viewed as a point of strength developing knowledge and providing security to the industry.
- Proximity of the Stamping Authority to the majority of industry manufacturers is a point of strength that would vanish in the near future if it is relocated elsewhere.

b- Weaknesses:

Weaknesses in this industry are manifested in the following:

- Informal practices of manufacturers and traders in what concerns raw material imports and stamping which leads to the insecurity to industries' stakeholders.
- Non-existence of a safety net for employees or consideration of their health in the work environment.
- Lack of confidence of consumers to retailers in general due to the overall reputation of the industry and a number of retailers' practices in the market.

- The dependence on imports of every component in the production process, which renders the industry very vulnerable to shifts in currency prices in an unstable economy such as Egypt's.
- Lack of good designers and skilled labor that could give a boost to this industry.
- Illiteracy in this industry is crucial and constitutes a hurdle for its advancement.
- Absence of transparency and reliable information system for the industry manufacturers and traders to count on for their feasibility studies and business strategies.
- Weak management of industry institutions and absence of labor unions.
- Compact urban environment and lack of efficient accessibility to the *Khan Al-Khalili* cluster.

c- Opportunities:

Stakeholders believe that the industry has opportunities to expand if exploited effectively.

- Markets in Libya and Sudan are promising especially with their political problems almost resolved with the west.
- Tourism is witnessing a strong recovery that the gold industry should benefit from.

d- Threats:

Many factors constitute a threat to the gold industry:

- The rapid devaluation of the Egyptian currency affecting both the production and consumer's purchasing ability.
- The planned relocation of the Stamping Authority and its unpredicted consequences.
- The changes that occur randomly to the sales tax, tariffs and import/export regulations building an environment of uncertainty to the industry.
- Political unrest in the region affects the market in general and consequently the jewelry market.

- International competition from other Arab countries such as Saudi Arabia and UAE constitutes a serious threat to the gold industry in Egypt.
- The deteriorated urban condition and work environment in *Khan Al-Khalili* constitute a threat to the future of the industry.

The research had so far presented an analysis of the industry followed by the specifics of the *Khan Al-Khalili area* and finally a presentation of the factors affecting the industry and a S.W.O.T. analysis necessary to draw any recommendations to this soaring industry, which will be presented in the following research conclusion.

* * * * *

Conclusion:

The research presented the various factors, internal and external, affecting the gold industry in Egypt. These factors are exerting pressure on this strategic industry and pushed it into a crisis manifested in a virtual stagnation of the market. The internal factors negatively affecting the industry are the quality of labor at all levels, management of both individual enterprises and the industry in general, and the government's laws and regulations. The external factors adding pressure on the industry are manifested in the depreciation of local currency, international and regional competition, and also indirectly political unrest in the region.

It is important at the end of this research to present the recommendations suggested by the stakeholders to save the industry from its present deterioration. The recommendations can be categorized hypothetically into industry and urban oriented.

a- Industry-Oriented Recommendations:

- Upgrading the industry and increasing the use of more advanced technology.
- Providing different payment systems to consumers to vitalize the market.
- Decreasing tariffs and sales tax.
- Upgrading sales techniques and attitude of salesmen.
- Mergers of a number of small workshops into a larger entity capable to compete in a tough market.
- Providing training sessions in management for industry managers.
- Providing means of transportation to employees.
- Improving employees' skills through training.
- Opening up markets regionally.
- Providing consistent pricing system across the industry.
- Organizing employees through a union.
- Using laser-stamping method instead of the traditional one.
- Easing constraints on hiring foreign labor.
- Allowing the formation of specialized schools to train the youth on the skills of this industry.

- Easing constraints on exports.
- Allowing more involvement of financial institutions into the industry and allowing gold loans system application.
- Creating a system of sponsors for talented jewelers to develop their business and enrich the industry with their designs.
- Encouraging the production of quality tools for the industry to decrease dependency on imported ones.
- Providing better work environment for employees.
- Improving design skills in the industry in general.
- Involving experts to upgrade the different aspects of the industry.
- Giving licenses for individual artisans to work from home.
- Government to encourage export of products.

b- Urban -Oriented Recommendations:

- Increasing parking spaces in *Khan Al-Khalili*.
- Upgrading the sewage system and the area's infrastructure in general.
- Transferring the area into a pedestrian zone.
- Attention to be paid to the hardscape and softscape of the area.
- Attention to be paid to the quality of the buildings.
- Preservation of historic monuments in the area.
- Widening the streets in the cluster.
- Separating historic buildings from the industry (either trade or production).
- Providing a signage system.
- Providing places to rest.
- Improving access to the area in general.
- Reorganizing the social events such as *Mulids*, which affect the markets, in a way that does not affect it

negatively rather to stimulate the commercial activities
in it.

As it can be noticed, most of the recommendations include the word “system”, that is what is crucially needed for the industry. It needs a system that organizes and sustains its development. That cannot be done without the collaboration of stakeholders and their serious willingness to save it from its current deteriorated status.

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APENDIX

The Industry's Picture Gallery