Arab Republic of Egypt Trade Brief

Trade Policy

The Arab Republic of Egypt carried out many reforms of its trade regime in 2004, cutting tariffs, reducing its number of tariff bands from 25 to 6 and its number of tariff lines from 13,000 to 6,000. The result was significant reductions in the weighted average tariff.[1] Accordingly, based on its 5.6 percent MFN Tariff Trade Restrictive Index (TTRI)[2], Egypt is more open to trade than the average Middle East and North Africa (MNA) (11.9 percent) or lower-middle-income (8.4 percent) country. Similar to the majority of other countries in the region, Egypt is more protective of its agricultural goods (with a TTRI of 7.0 percent) than its non-agricultural goods (5.4 percent). Based on the TTRI, its trade regime ranks 64th out of 125 countries (where 1st is least restrictive). The simple average of the MFN applied tariff is 16.9 percent. When accounting for preferences, the country's trade regime appears somewhat more open, since its simple average of the applied tariff falls to 10.7 percent. The maximum MFN applied tariff, excluding alcohol and tobacco, is 1502.5 percent, several times higher than the regional average of 387.6 percent. In 2007, this top tariff was levied on mixtures of odoriferous substances and mixtures, i.e. solutions used to flavor food and drinks. Based on the extent of its commitment to trade liberalization in services, Egypt ranked 89th out of 148 countries according to the GATS Commitment Index.

As food prices soared in 2008, Egypt imposed a ban on rice exports in April,[3] which was extended until October 2009.[4] In response to the global economic crisis, Egypt implemented a fiscal stimulus package, which included export subsidies for manufacturing. The package also supported its car industry by removing a development fee on all vehicle exports and exempting car parts from import duties.[5] Efficient protection has increased with higher tariffs on competing products, and lower tariffs and export bans on raw material inputs. The government introduced new import tariffs for several products such as cocoa, cigarettes, chemicals, steel products, and machineries, while at the same time eliminating import tariffs on yarn, tin, and textiles. Moreover, in January 2009 it imposed a 25 percent "precautionary fee" on imports of cotton yarn, fabric, and sugar from India, which was later eliminated in April.[6] The government also reduced import tariffs on specific capital goods not produced domestically to stimulate investment, and the prime minister issued instructions prohibiting government authorities from importing any final goods that have domestic subsidies.[7] To support its exports the government increased financing to export programs and reduced participation fees for specialized international fairs and exhibitions.[8] Additionally, activity in the construction sector was not significantly affected by the global crisis. Therefore, in March 2009, the government imposed a ban on cement exports until October 2009 due to increasing domestic demand. The ban was extended for exports of grey clinker and grey Portland cement until October 2010.[9] Egypt has initiated one safeguard investigation in the first quarter of 2008, being one of eight countries in the world to have done so in 2008.

External Environment

Egypt's exports do not have favorable access to international markets. Its Market Access TTRI[10] (including preferences) is 3.3 percent, higher than the averages for the MNA region and lower-middle-income country group of 2.1 and 2.3 percent, respectively. The simple average of the overall rest of the world tariff (including preferences) faced by the country's exports is 8.9 percent. When its trade flows are taken into consideration, the weighted rest of the world tariff (including preferences) is 1.8 percent (1.2 percent for non-agricultural products and a high 8.2 percent for agricultural products). As a member of the Common Market for Eastern and Southern Africa (COMESA), Egypt enjoys access to its custom union that was launched in June 2009 and should be fully implemented by 2012.[11]

Unless otherwise indicated, all data are as of August 2009 and are drawn from the World Trade Indicators 2009/10 Database. The database, Country Trade Briefs and Trade-at-a-Glance Tables, are available at http://www.worldbank.org/wti.

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Behind the Border Constraints

Egypt's business environment improved in the last year, and its Ease of Doing Business rank for 2009 went to 106th out of 183 countries from 116th in 2008. The changes it implemented, such as eliminating minimum capital requirements, also led to Egypt being ranked as the ninth top reformer for 2008/09, after having been ranked the tenth top reformer the year before. Additionally, Egypt's Logistics Performance Index score, which reflects the extent of trade facilitation, is below the regional and income group averages, reflecting a less conducive climate for trade. Egypt scores 2.37 on a scale of 1 to 5, with 5 being the highest score, slightly below the regional and income group averages of 2.42 and 2.47, respectively. It ranked 97th out of 150 ranked countries and 6th in the MNA region. Its strongest performance was in the area of domestic logistics costs and timelines of shipments, while it needs most improvement in the area of quality of transport and IT infrastructure. The Egyptian pound has appreciated by 12.9 percent in real terms in 2008, making exporters less competitive abroad.

Trade Outcomes

Due to slight accelerations in the growth rates of imports and exports, Egypt's total trade growth remained strong in real (in constant 2000 U.S. dollars) terms, increasing marginally in 2008 to 25.8 percent compared to the average rate of 23.3 percent over the 2005–07 period. However, this exceptional performance is expected to reverse in 2009, when trade of goods and services is forecast to fall by 4.6 percent.

High commodity and fuel prices in the first half of 2008 led to the rate of trade growth more than doubling in nominal terms from 27.0 percent to an estimated 56.6 percent. An exporter of hydrocarbons and its derivatives, which make up around 55 percent of total export revenues,[12] Egypt has been adversely affected by both decreasing demand due to the global recession and declining oil prices. Its non-merchandise exports were also affected, as the tourism sector was hit by the economic downturn.[13] The trend continued in the half quarter of 2009 when its exports declined by 21.8 percent compared to the same period the year before. While the fall in imports was less steep in the fourth quarter of 2008, in the first half of 2009 imports fell by 2.1 percent year-on-year.

Notes

1. WTO, August 5, 2008, p. viii.
2. TTRI calculates the equivalent uniform tariff that would keep domestic welfare constant. It is weighted by import shares and import demand elasticity.
3. FAO, 2009.
4. WTO, July 15, 2009, p. 68.
5. World Bank, Spring 2009, pp. 7–8.
6. WTO, July 15, 2009, p. 68.
7. World Bank, 2009, p. 36.
8. Ministry of Finance, June 2009, p. 10.
9. Global Trade Alert, July 20, 2009.
10. MA-TTRI calculates the equivalent uniform tariff of trading partners that would keep their level of imports constant. It is weighted by import values and import demand elasticities of trading partners.
11. COMESA, 2009.
12. EIU, 2008, p. 31.
13. EIU, 2008, p. 8.

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