Egyptian Foreign trade status with special focus on USA and EU as Egypt's major trading partners

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***Abstract* :**

Despite Egypt's adoption of an "open-door" policy since the 1970s and a rapid expansion of world trade in recent decades, the openness indicator, nearly halved from 1980 (46%) to 2000 (24%), with the same trend recorded for services. Since 2001, a number of trade liberalization and reform measures, although falling short of opening Egypt's protected market, contributed to enhancing exports to the global market place. The pace of liberalization received a boost with the new government's reinforcement of export -oriented policies.

Egypt's longstanding trade deficit is almost offset by a surplus in the services balance.

In 2004, the Egyptian government reduced the simple and weighted average tariff rates on imports to 12.1 percent and 8.0 percent, respectively. The move was the latest in a series of trade reforms that began in 1991 involving the elimination of quantitative restrictions, phased reduction and rationalization of tariffs, and the removal of anomalies.

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1.Introduction

Trade liberalization could improve resource allocation in favor of activities where Egypt enjoys comparative advantage, reduce the anti-export bias, and improve the fortune of the factor of production most abundant in Egypt. It could also make cheaper and better products available to consumers, even if some firms have to adjust to increased competition and government has to incur some loss of revenue in the short run.

As a result of recent trade liberalization, the average level of tariffs in the Egyptian economy is now closer to that in other middle-income countries.

The EU is the number one export destination with 37 per cent of total Egyptian exports directed there. USA is the second 31 per cent of total exports.

Table1.1: Egyptian exports main destinations

Destination	% of Egyptian exports
EU	37%
USA	31%
Arab Countries	11%
Asian Countries	10%
Other European Countries	7%

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As for Egyptian main partners in terms of imports, again the EU is the number one Import destination with 38 per cent of total Egyptian imports from there. While USA is the second 20 per cent of total imports.

Chart 1.1: exports by geographical location

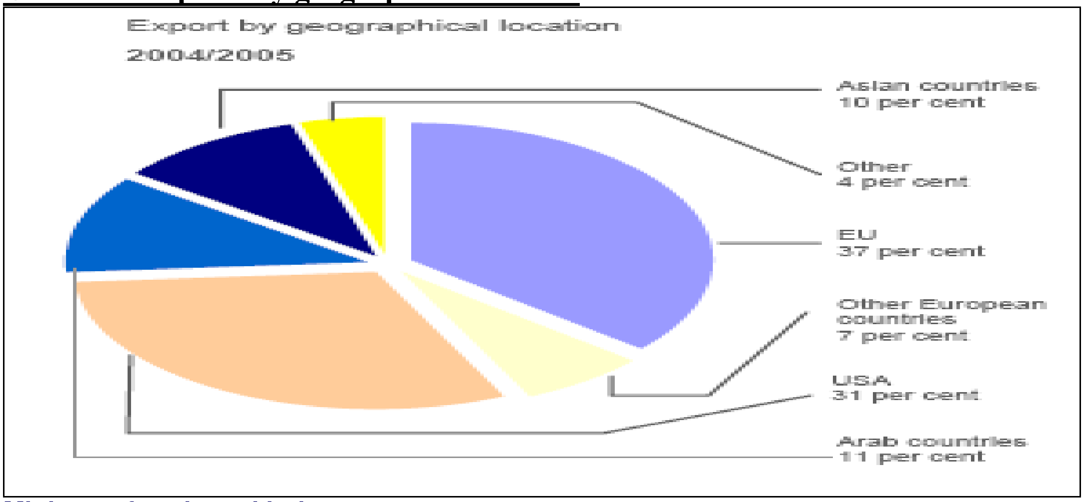

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Table 1.2: Egyptian imports main sources

Destination	% of Egyptian imports
EU	38%
USA	20%
Asian Countries	14%
Other European countries	8%
Arab Countries	8%
Other	12%

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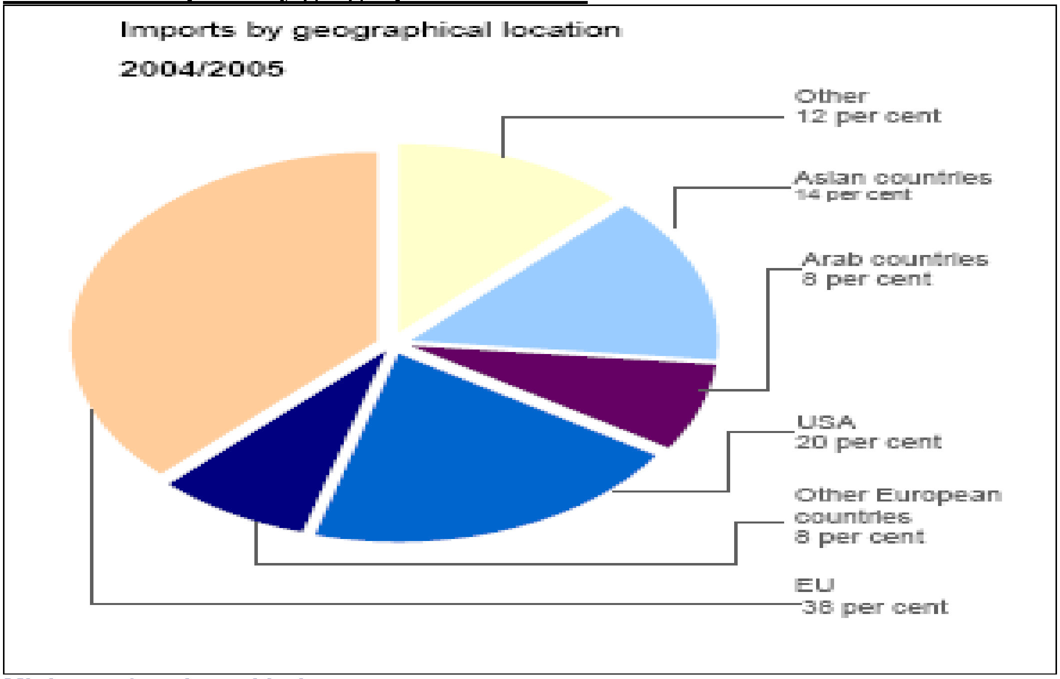
Chart 1.2: Imports by geographical location



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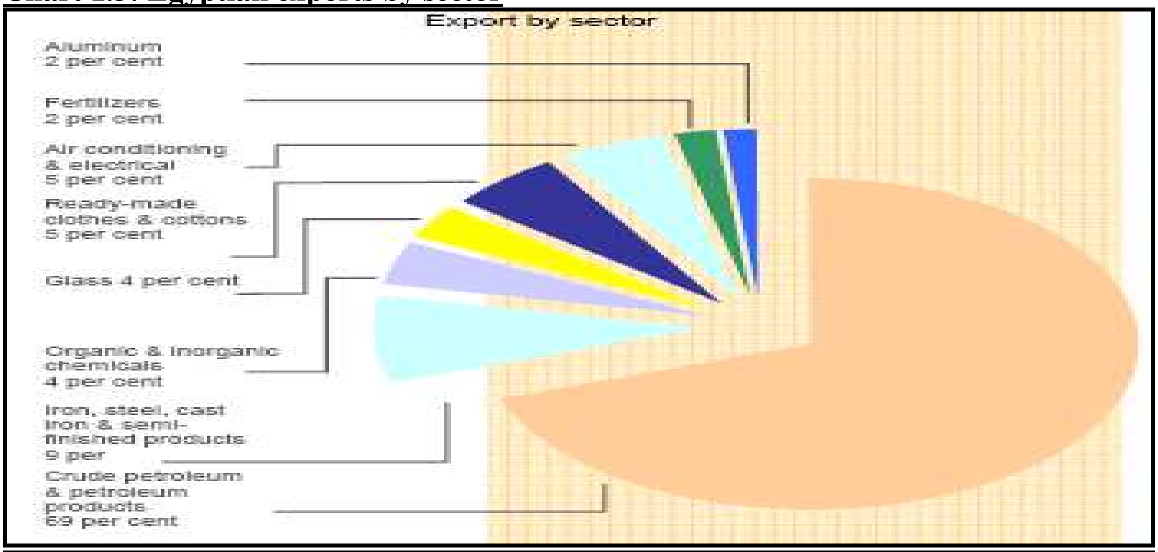
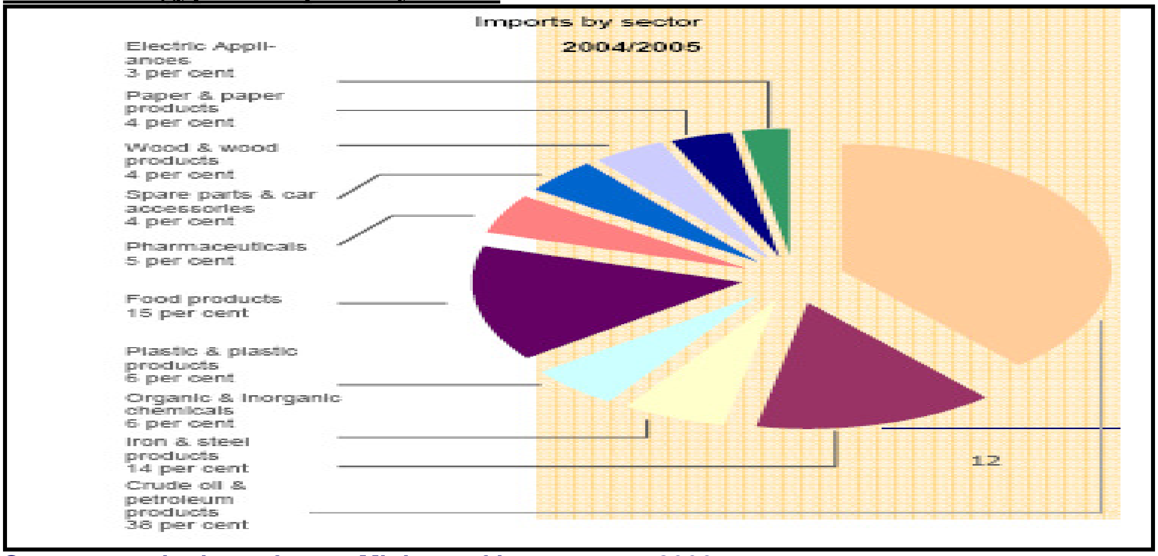
The Egyptian exports in the year 2004\2005 composed mainly of crude petroleum and petroleum products which counted to 69% of total Egyptian exports.

Chart 1.3: Egyptian exports by sector



Source: continuing reform – Ministry of investment - 2006

Chart1.4: Egyptian imports by sector



Source: continuing reform – Ministry of investment - 2006

Oil is the major export sector, representing 69 per cent of total exports in 2004/2005. Iron tops the list of non oil exports with 9 per cent.

2. Regional Integration

Egypt, starting in the mid-1990s, joined a large number of regional trade agreements (RTAs), and is still in the process of negotiating others. Among the most important RTAs that Egypt has joined recently is the Association Agreement with the EU *(1).*

The cornerstone of this Agreement is the establishment of a free trade area within a transitional period of 12 years, during which Egypt will have to gradually phase out all tariff and non-tariff barriers against manufactured imports from the EU. Automobiles, as an exception, will be liberalized within 16 years. Agriculture, agro-industrial products, and services are either dealt with under other limited liberalization modes or left out completely.

Moreover, Egypt joined the Greater Arab Free Trade Area (GAFTA) with member countries of the Arab League in 1997. The GAFTA aims at full elimination of tariffs and non-tariff barriers within a 10 - year transitional period with a 10% reduction each year starting in 1998. *(2)*

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(1) Signed in June, 2002 and ratified by the Egyptian Parliament in April 2003
(2)A decision has been recently taken to end the transitional period by 2005 instead of 2007.

In addition to the GAFTA, Egypt is engaged in preferential bilateral trade agreements with a large number of Arab countries including Lebanon, Syria, Morocco, Tunisia, Libya, Jordan, and Iraq *(3)* Egypt has also joined the Common Market for East and South Africa (COMESA) since 2001. The COMESA is a free trade area among 22 African countries that aims at reaching deeper stages of regional integration.

Currently, Egypt is negotiating a free trade area with the European Free Trade Area (EFTA) countries, and with the Economic and Monetary Union of West Africa countries (EMUWA). It has lately established a free trade area with the triad *(4)* under the Agadir Declaration. The main aim is to benefit from the accumulation of inputs allowed under the Pan European Rules of Origin in the EU's preferential trade agreements.

According to this system, countries that have signed a free trade area with the EU and bilateral free trade among themselves and follow the same rules of origin are allowed to cumulate inputs *(5)*

Finally, Egypt has been trying for the past few years to negotiate a free trade area with the USA, which has started in 1999 by signing the Trade and Investment Framework Agreement (TIFA). *(6)*

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(3)Ministry of Foreign Trade 2003.
(4)Jordan, Tunisia, and Morocco
(5)Ghoneim et al. 2003
(6) However, this initiative hasn't been so far successful in materializing.

A number of other bilateral free trade agreements are in the pipeline to be negotiated (with Turkey, South Africa, Nigeria, India, Sri Lanka, Australia, and Japan).

Table 2.1: main regional trade agreements

Year	Name of Agreement
1998 (entry into force)	GAFTA (free trade area to be reached by 2007)
1998 (entry into force)	COMESA (free trade area already taking place, aim to reach a customs union by 2004)
2002 (signature and ratification)	EU-Med Partnership Agreement (free trade area to be reached after 12 years from entry into force of the agreement, with one exception)
2001 (initiated) 2004 (signature)	Aghadir Declaration (free trade area with similar rules of origin to be reached soon)
1999 (signing and entry into force)	TIFA (agreement to enhance trade and investment)
Potential under negotiations or discussion*	Free trade area with EFTA, Turkey, South Africa, Nigeria, Australia, India, Tanzania, Sri Lanka, and EMUWA, Japan
In the 1990s	A number of bilateral preferential trade agreements with Arab countries including Lebanon, Syria, Morocco, Tunisia, Libya, Jordan, and Iraq

Source: Ministry of Foreign Trade (2003), Aggregated Foreign Trade Report.
**This is based on what has been mentioned in the newspaper as stated by officials.*

3. US-Egypt trade relations

The United States has been Egypt's leading foreign trade and investment partner since the time of Egypt's Open Door Policy and the Camp David Accord in the late 1970s. Despite short-term fluctuations, bilateral relations have been marked by an upward trend in trade and preliminary step towards a Free Trade Agreement between the two countries. Proceeding in that same direction the Bush Administration announced the formation of Qualified Industrial Zones (QIZs) in Egypt on December 10, 2004

investment and supportive partnerships and agreements.
Before September 1994, the two major bilateral trade agreements between Egypt and the United States were the Bilateral Investment Treaty signed in September 1982 and a Market Access Agreement for Textiles & Clothing signed in 1973.
The signing of the U.S.–Egyptian Partnership for Economic Growth & Development in September 1994 was an important milestone in the two countries' relationship.

In July 1999, Egypt and the United States signed the Trade & Investment Framework Agreement (TIFA) as a
significantly from $2.9 billion in 2001.

During 2004, Egypt's exports to the United States rose 13.3 percent from 2003 to approximately $1.1 billion. Total non-petroleum Egyptian exports amounted to $242.2 million, representing 22.3 percent of Egypt's export structure to the United States.

The United States is Egypt's number one single trading partner and the second most important trading partner after the European Union. In 2004, the United States supplied 26 percent of total Egyptian merchandise imports and received 17 percent of total Egyptian merchandise exports. Egypt receives 10.9 percent of U.S. merchandise exports to the MENA region *(fourth largest)*, while also ranking 36 in U.S. Global exports. Egypt's trade deficit with the United States in 2004 rose from 2003 to reach $1.77 billion, resulting in the second largest trade deficit among Egypt's bilateral trade balances. However, this deficit has decreased
On the other hand, Egyptian imports from the United States amounted to $3.1 billion in 2004, up from $2.66 billion in 2003. As an importer, Egypt's most important imports from the U.S. are agricultural products (28%), mainly cereals, transportation equipment (22%), machinery (12%), and fabricated metal products (9%). As an

exporter, the top Egyptian exports to the United States are apparel and clothing articles (32%), petroleum and products (18%), and iron and steel (19%).

Table 3.1: Egypt's top Imports and exports (resp.) from and to USA 2004

Egypt's Top Imports from the U.S. (2004)

Rank	SITC Code	Product Description	Value ($ million)	% Change (2003/04)
1	41	Wheat And Meslin, Unmilled	451.5	7.82
2	891	Arms And Ammunition	378.0	59.85
3	44	Maize (Not Including Sweet Corn) Unmilled	356.4	-1.88
4	792	Aircraft & Associated Equipment	349.5	37.94
5	723	Civil Engineering & Contractors Plant & Equipment	166.5	48.1
6	714	Nonelectric Engines And Motors	68.2	186.14
7	764	Telecommunications Equipment	64.6	-31.05
8	874	Measuring/Checking/Analysing Instuments	59.8	152.41
9	743	Pumps, Air Or Other Gas Compressors And Fans	52.3	34.36
10	752	Automatic Data Process Machines	49.9	154.73
		TOTAL ALL COMMODITIES	*3,104.5*	*16.7*

Egypt's Top Exports to the U.S. (2004)

Rank	SITC Code	Product Description	Value ($ million)	% Change (2003/04)
1	334	Oil (Not Crude)	242.1	63.15
2	673	Iron & Nonalloy Steel Flat-Roll Products	202.5	517.44
3	842	Women/Girls Coats, Not Knit	127.9	14.39
4	841	Mens Or Boys Coats, Jackets Etc, Not Knit	114.6	-3.62
5	845	Articles Of Apparel Of Textile Fabrics	99.3	13.37
6	931	Special Transactions Not Classified By Kind	96.3	-29.66
7	659	Floor Coverings	69.3	-2.91
8	843	Mens Or Boys Coats, Jackets, Knitted	46.7	11.68
9	676	Iron & Steel Bars, Rods, Angles, Shapes & Section	43.9	-2.04
10	658	Made-Up Articles Of Textile Materials	42.9	8.51
			1,330.0	*16.28*

Source : AMCHAM in Egypt

4. EU-Egypt trade under the Association Agreement

The EU/Egypt Association Agreement entered into force on 1 June 2004, after ratification by the Egyptian People's Assembly, the European Union and the European Union Member States. The Association Agreement reflects the approach of the Barcelona Process, as it contains provisions with respect to the three pillars of the Euro-Mediterranean partnership, namely political dialogue, trade and economic integration, and social and cultural co-operation.

The core of the Association Agreement is the establishment of a Free Trade Area between the EU and Egypt, which implies reciprocal tariff liberalization for industrial and agricultural goods. The EU has granted a complete dismantling of customs duties and quotas for Egyptian industrial products and a list of agricultural products exported to the EU. On the other hand Egypt is implementing a gradual abolition of customs duties for European industrial products and some agricultural products over an implementation period of 12 years.

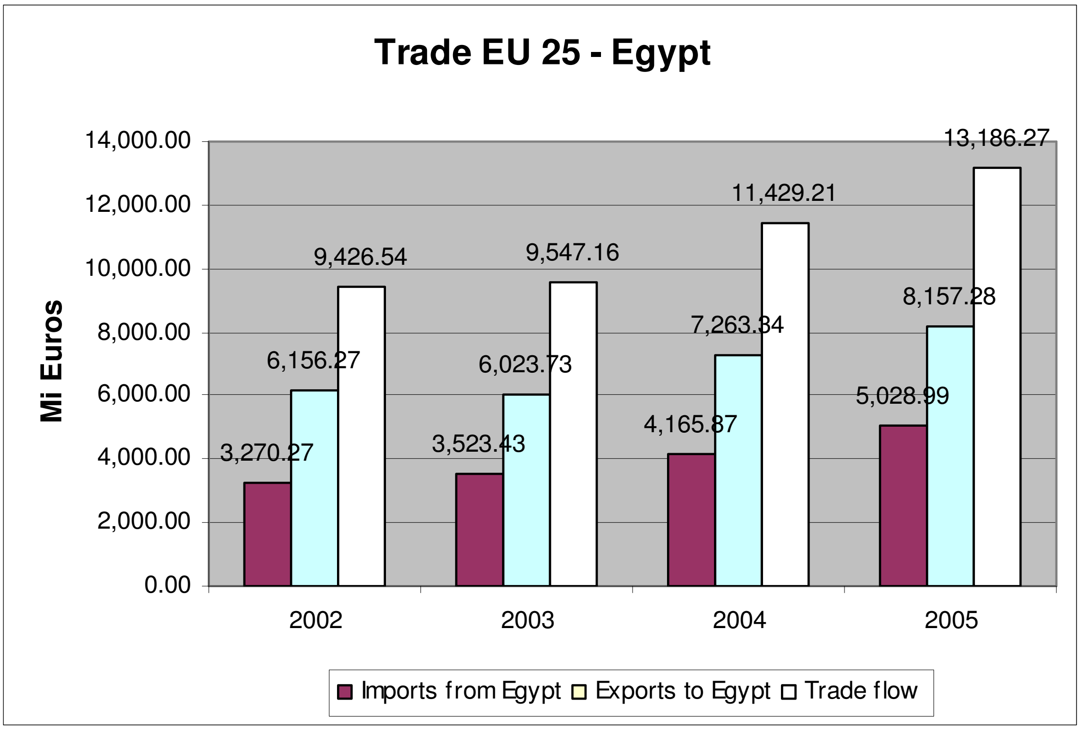
EU-Egypt bilateral trade has been steadily increasing: €11, 5 billion in 2004 and €13, 3 in 2005 *(12)* **with an upward trend for both Egyptian exports to the EU which have increased by 20, 7 % in 2005 and EU exports to Egypt which increased by 12.3%.**

The enlarged EU has become the first trade partner for Egypt and represents more than 40% of Egypt's total trade with the world.

The main Egyptian exports to the EU are oil products (45%) and textiles (13%).

Main EU exports to Egypt are machinery (36%) and manufacture products (29%).

<u>Chart 5.5: Trade EU25 – Egypt</u>



Source: EU commission to Egypt - Euro stat

5. Expected benefits of Egyptian Trade under the European Neighborhood policy

Under the EU's Country Strategy Paper for Egypt for 2007-2013 EU will focus on areas with a direct impact on EU-Egypt trade, such as reducing administrative red tape and overregulation of trade and services, capitalizing on innovation, scientific research and high-tech development, developing IT niche sectors, enhancing quality and export competitiveness (including export potential on SPS issues), and trade facilitation and customs reform. In parallel, EU assistance will also cover modernization of the statistical system, which is crucial to the reform processes in Egypt.

Conclusions

As a general remark on the Egyptian Trade performance , it was noticed The low level of trade in Egypt in spite of the continues efforts of the government to apply various reform programmes, this can be explained that trade reform is too recent to have had a full impact on trade, also firms in Egypt continue to face constraints regarding entry, operation and exit that make it difficult for them to compete successfully in international markets. Specially in the processes of obtaining credit, registering property and resolving insolvency are still more costly in Egypt in addition to the persistence of some trade-related barriers

compared to other middle-income countries, especially to conform to international standards and technical requirements.

On the hand, Egypt has been able to diversify its markets geographically, thus reducing its dependence on the EU while increasing its export presence in the MENA region and Sub- Saharan Africa . It also continued to export to the USA. This market diversification strategy could reduce Egypt's exposure to possible demand slowdowns in specific regions.

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