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Final Report

NEW DIRECTIONS IN EGYPT'S TRADE POLICY AND CUSTOMS REFORMS

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TABLE OF CONTENTS

TEXT BOXES, FIGURES, AND TABLES

BOXES:

FIGURES:

ANNEX TABLES:

ACRONYMS

CGE	Computable general equilibrium (model)
EAP	Economic Analysis and Policy Directorate
EED	Export Enterprise Development (project)
EEPC	Egyptian Export Promotion Center
ERP	Effective rates of protection
ERSAP	Economic Reform and Structural Adjustment Program
EU	European Union
ICA	Industrial Control Authority
IIT	Intra-industry trade
IMF	International Monetary Fund
ISS	International Standardized Specifications
NTBs	Non-tariff barriers
M.D.	Ministerial Decree
P.D.	Presidential Decree
RCA	Revealed comparative advantage
SAL	Structural adjustment loan
TDC	Trade Development Center
UNDP	United Nations Development Programme
VAT	Value added tax

PREFACE

This report was prepared for USAID/Cairo under the Macroeconomic IQC, Delivery Order 12, A.I.D. Contract No. AEP-5451-I-00-2058-00. This study was undertaken during a three-week period between January 10 and January 29, 1994. The project team consisted of Montague Lord, Chief of Party; Greta Boye, Trade Economist; Mahmoud Hosny, Customs Expert; and Mahmoud Salah, Trade Expert. This study was carried out in close collaboration with the Research Department of the Ministry of Economy and Foreign Trade. Both Dr. Ali Soliman, Undersecretary of the Economic Research Secretariat, and Mark Gellerson, of the Economic Analysis and Policy Directorate in USAID, were responsible for the initial design of the project, and guided much of its day-to-day activities. Mr. Mahmoud Alyan, also of the Economic Research Secretariat, collaborated in all aspects of the study. The direction provided by Dr. Soliman and the collaboration offered by Mr. Alyan greatly contributed to the study.

EXECUTIVE SUMMARY

The comprehensive Economic Reform and Structural Adjustment Program of the Government of Egypt includes a trade liberalization component that introduces substantive changes to the inward-looking, import-substitution industrial strategy of the last three decades. To assist in the design and analysis of trade policy and customs regulation reforms, and improve the sequencing of those initiatives, the US Agency for International Development has provided technical assistance for the study of key trade policy and customs reform issues that need to be addressed as part of the Government's comprehensive reform program. The analyses in this report of those issues and the recommendations for technical assistance activities aimed at supporting the Government's trade policy reform efforts are the outcome of that project.

To date Egypt's trade liberalization has needed a relatively small institutional response on the part of the government bureaucracy. Quantitative restrictions have, for the most part, been converted to tariff schedules through a series of government decrees. Yet, despite progress made in the last three years, nominal and effective protection and cumbersome customs regulations and procedures remain as major obstacles to trade. The normal sequence of trade reforms generally consists of the conversion of quotas to tariffs; the equalization of tariffs, without necessarily reducing revenues; and the reduction of tariffs and simplification of customs regulations and procedures. Having completed the first stage of the reform process, the Government now needs to proceed with the second and third stages of the reform sequence. Moreover, the Government of Egypt is now embarking on the more difficult economic policy reform tasks associated with fundamental structural reforms through trade and investment initiatives and regulatory reforms that will impact on the real sectors of the economy. In trade-related matters, these tasks include the reduction of trade control measures and the implementation of export promotion measures to establish a strong institutional and administrative base for an outward-oriented economy. From an institutional point of view, these reforms will require that the Government dismantle or redirect inefficient activities, and create new entities with functions that will encourage competitiveness and the outward orientation of the economy.

Although trade policies are formulated through a complex system, the process of reform and structural adjustment will itself reduce the fragmented administrative and regulatory framework under which government policies have been implemented. Initially, for instance, the stabilization program led to internal inconsistencies with trade liberalization initiatives as tax revenue needs expanded in response to sharp reductions in deficit financing. As such, the fiscal revenue objectives of the Ministry of Finance provided a natural source of conflict with the trade liberalization objectives of the Ministry of Economy and Foreign Trade. Trade-related tax revenues have, nonetheless, decreased relative to the overall tax base as direct and indirect taxes have been introduced. This trend is expected to be sustained as the Government continues to overhaul the tax system, and as the value added tax is introduced later this year. Similar conflicting objectives for the regulation of trade nevertheless remain between other government ministries.

The link between macroeconomic policy and the development of an outward-oriented economy also remains an unresolved issue. The appreciation of the Egyptian pound has provided producers with lower cost raw materials and capital goods from abroad. It has also increased the cost of Egypt's exports in foreign markets. There is insufficient information to determine whether the appreciation of the real exchange rate since 1991 has significantly impacted on the international competitiveness of Egyptian exporters. Real wages have declined and this trend may have represented an additional production cost to traded goods. Further study of this issue is needed before policy recommendations can be made.

The initial findings of this study point to the need for additional reforms in areas related to the tariff structure, customs regulations and procedures, export promotion, competitiveness, adjustments to the new GATT agreement, and working capital access. In tariffs, reforms are needed to reduce the disparity between tariffs on raw materials and capital goods and those on final goods. In customs regulations and procedures, the system needs to be streamlined through the establishment of a centralized processing center, documentation of procedures need to be made available, and redundant and unnecessary procedures eliminated. In export promotion activities, support is needed for private sector organizations to build broad-based support for potential exporters. For industries with a strong export growth potential and whose competitiveness has been distorted by earlier inward-looking policies, there is a need to provide targeted support, perhaps in the form of technical assistance and working capital. For small and medium-size exporters, there is a need to develop broader access to working capital to ensure neutral status in the competitive money and financial markets.

The internal consistency of these trade policy and customs reforms requires consideration of the linkage to macroeconomic policy and the liberalization of the domestic market. It is only in this context that new export incentive systems can be made a sustainable part of the overall reform process. Ultimately, the effectiveness of reforms in Egypt will depend on their impact on the economic efficiency at the firm level, and on the degree to which they introduce greater international competitiveness.

I. INTRODUCTION

Egypt has undertaken a comprehensive economic reform and structural adjustment program aimed at the stabilization, liberalization and privatization of the economy. Stabilization efforts have succeeded in bringing down the annual rate of inflation to near single digit levels, reducing the fiscal deficit and virtually eliminating the current account deficit of the balance of payments. The more difficult tasks related to investment and regulatory measures that impact on privatization are now beginning to be implemented. Trade liberalization has progressed considerably. Non-tariff barriers (NTBs) to trade are being phased out, and tariffs have been introduced as the main trade policy instrument; the authorities are in the process of implementing a customs schedule based on the Harmonized Commodity Description and Coding System; and tariff ceilings have been reduced, albeit to relatively high levels.

The issue now confronting the Government is the design and sequencing of trade policy and customs regulation reforms that will sustain the momentum to an outward-oriented market economy. At present, the tariff structure provides a high degree of tariff escalation, and there are strong private-sector interests in maintaining the large tariff dispersions between raw materials and capital goods, on the one hand, and final goods, on the other, to protect domestic industries from foreign competition. Customs regulations and procedures lack transparency, and continue to represent a major impediment to trade.

This study aims to assess in a comprehensive and integrated fashion the key trade policy and customs reform issues that need to be addressed as part of the Government's overall economic reform program, and to assess the need for technical assistance activities in support of those trade policy and customs reforms. To that end, the approach generally followed in this study is to consider Egypt's trade policy and customs regulation reforms as consisting of the design and sequencing of three interrelated components: institutional capabilities, trade policies and customs regulations, and macroeconomic policies.

The first component, institutional capability, refers to the public sector bureaucratic mechanism for trade policy reforms and programs, and to the private sector organizations supporting trade-related activities. Organizational assessments have only recently been incorporated into structural adjustment lending in a systematic manner (see Levy, 1993, Nelson, 1989, and Paul, 1989). In Egypt, where the legacy of central planning under the socialist era remains visible in the highly bureaucratic and fragmented system of controls, the adaptability of the public sector bureaucratic system to trade policy and customs regulation reforms is a critical element in the development of an outward-oriented economy.

The second component, trade policies and customs regulations, refers to tariffs and NTBs to trade, and trade control measures that directly or indirectly affect the level and rate of growth of trade. These policies can take the form of direct measures such as import prohibitions, or indirect measures such as tariffs on imports of intermediate products that affect the country's export competitiveness. Concurrent with these trade policies are customs regulations and procedures that often lack transparency, and therefore act as barriers to trade. Once customs regulations and procedures have been reduced and simplified, and NTBs to trade converted to tariffs, it becomes easier to implement a graduated reduction in trade barriers.

The third component, macroeconomic policies, refers to monetary, fiscal and exchange rate policies that affect the international competitiveness of exports. Trade liberalization is difficult to obtain when, like in Egypt, the Government relies on tariffs for a substantial part of its revenue. Macroeconomic stabilization and structural adjustment often lead to lower fiscal expenditures, but the need to reduce the fiscal deficit puts pressure on tax revenues. Countervailing domestic taxes such as a value added tax (VAT) are required to offset the decline in import taxes. At the same time, the failure to sustain an adequate exchange rate policy can undermine trade policy reforms. A key question that needs to be addressed is whether the real exchange rate is correctly aligned with a long-run equilibrium value that will ensure the simultaneous attainment of internal and external equilibrium in Egypt's real financial sectors.[1]

Ultimately, the objective of trade policy and customs regulations reforms in Egypt must be assessed in terms of the *internal consistency* of the separate measures in the economic reform and structural adjustment program. As underscored by the World Bank's review of trade policy reforms in other countries (World Bank, 1991a), internal consistency depends on whether the design of trade policy adjustments is consistent with conditions prevailing in the country, whether trade reforms are adequately linked with domestic reforms, and whether new incentive systems are a sustainable part of the reforms. The effectiveness of those reforms in Egypt will depend on their impact on the economic efficiency of individual firms, and on the degree to which they introduce greater external competitiveness.

This study was undertaken during a three-week period between January 10 and January 29. The project team consisted of Montague Lord, Chief of Party; Greta Boye, Trade Economist; Mahmoud Hosny, Customs Expert; and Mahmoud Salah, Trade Expert. The study was carried out with the close collaboration of the Research Department of the Ministry of Economy and Foreign Trade. Both Dr. Ali Soliman, Undersecretary of the Economic Research Secretariat, and Mark Gellerson, of the Economic Analysis and Policy Directorate (EAP) in USAID, were responsible for the initial design of the project, and guided much of its day-to-day activities. Mr. Mahmoud Alyan, of the Economic Research Secretariat in the Ministry of Economy and Foreign Trade, collaborated in all aspects of the study and greatly contributed to its completion.

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[1]Internal equilibrium refers to the clearance of the nontradeable goods market; external equilibrium means that the current account balances are compatible with long-run sustainable capital flows. For Egypt, the latter condition is particularly important to the assessment of its equilibrium real exchange rate, given the recently large capital inflows and current account imbalances that characterize its balance of payments situation.

The report on the findings of the study is organized as follows:

- Part I provides a general introduction and the motivation for the present analysis of trade policy and customs reforms in Egypt.

- Part II lays out the framework for assessing trade policy and customs reforms in terms of the design and sequencing of reforms, linkages to macroeconomic policies, institutional and regulatory initiatives for different levels of reform, and organizational and political obstacles to reform.

- Part III examines the Government of Egypt's trade policy reforms in the context of the broader economic reform and structural adjustment program, and it reviews donor activities in support of those reforms.

- Part IV discusses issues related to institutional initiatives, including the characterization of Egypt's bureaucratic structure as it affects the reform process for trade policies and customs regulations.

- Part V analyzes the domestic and international trade policies, specifies the domestic trade measures that require further reform, and examines issues related to Egypt's export competitiveness.

- Part VI addresses customs regulations and procedures affecting exporters and importers, and addresses the opportunity costs associated with the lack of transparency of the present system.

- Part VII discusses the macroeconomic policies affecting trade, reviews fiscal revenue requirements and customs duties, and addresses exchange rate issues affecting trade.

- Part VIII presents a summary of the findings and recommendations for further policy and administrative reforms.

- Annex A contains a list of individuals interviewed as part of the preparation of this report.

- Annex B contains background data on trade and macroeconomic activities in Egypt.

II. DESIGN AND IMPLEMENTATION ISSUES

A. DESIGN AND SEQUENCING OF TRADE POLICY REFORMS

The experience of countries in adopting trade policy reforms is well documented (recent cross-country reviews include Lord, 1994; Rajapatirana, 1994; Lord and Oliva, 1992; World Bank, 1991b, 1992; Thomas, Matin, and Nash, 1990). Although it is beyond the scope of this study to review all the issues and experiences in trade policy and customs reforms, the experiences of other developing countries in designing and sequencing those reforms, and linking the reforms to broad economic reform and structural adjustment programs provide a perspective from which to assess Egypt's own reform efforts.

Considerable work has been undertaken on the output effects of trade liberalization (Edwards, 1984, 1991, 1993). In Latin America, Lord (1992) has shown that the trade liberalization policies of the 1980s resulted in higher output growths than would otherwise have occurred under quantitative import restrictions and inward-looking policies. Rajapatirana's (1994) study of the Latin American experience shows that inward-looking policies that imposed large quantitative restrictions on imports directly effected reductions in domestic output, rather than being channeled through reductions in the demand for output.

Once trade policy reforms are initiated, almost all countries have followed a sequencing approach consisting of the following steps:

Step 1 Conversion of quotas and other NTBs to tariffs.

Step 2 Equalization of tariffs, without necessarily reducing revenues.

Step 3 Reduction in tariffs.

The speed with which that sequencing occurs appears to have little, if any, effect on the success of the reform efforts (IMF, 1993: 41-43). It is also important to underscore that reforms of internal competition policies have been critical to the effectiveness of external trade policy reforms. The World Bank (1991b: 112) found that reforms of internal competition policies often lagged behind those of trade policies. The result of sequencing external competition before internal competition often reduced the economy's flexibility to respond to external competition, and it weakened the supply response of producers to the trade reforms.

B. TRADE POLICY LINKAGES TO MACROECONOMIC POLICIES

Trade policy reform programs are often formulated in such a way that they overlook the close linkages between the success of those initiatives and monetary, fiscal and exchange rate policies. Once trade liberalization has been effectively completed, distortionary effects from macroeconomic policies become apparent. Experience therefore suggests that countries like Egypt should undertake trade policy reforms concurrent with macroeconomic policy reforms and structural adjustment programs.

On the fiscal side, the effects of trade liberalization on tax revenue are normally expected to be negative. In practice, however, Rajapatirana (1994) has found that one cannot predict the direction of the change in trade tax revenue resulting from trade policy change. In Argentina, tax revenue increased with trade liberalization, and decreased with the tightened trade policies. In Mexico tax revenues increased both during a period of trade liberalization and during a period of increased trade restrictions, without significantly effecting the structure of the tax system. Nonetheless, the degree of dependence on trade taxes often determines the amount by which countries reduce tariffs. The World Bank (1991b: 112) found that the higher the dependence, the lower the probability that a country would implement the second and third stages of the trade reform process. Trade policy and customs reforms therefore need to be accompanied by the development of new direct and indirect taxes.

In monetary policy, internal stabilization is often supported by the conversion of quotas and other NTBs to trade to revenue-producing tariffs. Thus, the first stage normally parallels stabilization, and tariff-cutting measures come after stabilization objectives are met. Indeed, one of the most important outcomes of research on the relationship between trade policies and macroeconomic adjustment is that, because of macroeconomic disequilibrium, which appears as inflation or current account deficits, exchange rates become overvalued and undermine trade policy reforms.

The interrelationship between monetary, fiscal and trade reform policies is fairly well defined. In stabilization programs, the experience of other countries in reducing budget deficits has been to increase revenues relative to expenditure reductions (World Bank, 1991b). Thus tax revenue increases have formed an integral part of fiscal adjustments. The implication is that fiscal revenue requirements can become incompatible with trade liberalization policies that reduce import duties. Fiscal revenue increases can, nevertheless, originate from non-tax sources such as privatization, but the experience in other countries surveyed by the World Bank indicates that trade policy reforms that form part of broader economic reform and structural adjustment programs are paralleled by the development of other tax revenue sources.[2]

C. INSTITUTIONAL INITIATIVES AND THE LEVEL OF REFORM

In Egypt, as elsewhere, different degrees of institutional and regulatory initiatives are required for specific reforms within a broad menu of possible policies and programs. These differences have been classified in the World Bank's study by Levy (1993) into three levels:

- *Level 1* reforms that are unrelated to the Government's bureaucratic capability, and include the removal of NTBs to trade and the reform of the tariff structure.

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[2]The 1991 World Bank survey covered Colombia, Ivory Coast, Ghana, Indonesia, Jamaica, Mexico, Morocco, Pakistan, and Turkey, and it assessed structural adjustment lending for trade policy reforms through 1989.

- *Level 2* reforms that necessitate the establishment of new institutions to manage the promotion of exports.

- *Level 3* reforms that require the dismantling and streamlining of existing government bureaucracies, and the implementation of new functions in the essential government institutions.

Box 1 shows the level of organizational initiatives required for trade liberalization and export promotion in Egypt based on their degree of institutional and regulatory change requirements.[3] To date, the majority of Egypt's trade policy and customs regulation reforms have been *stroke-of-pen* reforms. The more difficult measures involve the dismantling or redirection of inefficient institutions, and the creation of new institutions that will encourage the competitiveness and outward orientation of producers.

In general, trade liberalization and exchange rate unification need a relatively small institutional response, while export promotion policies and programs necessitate a more active institutional response. Indeed, most of Egypt's remaining trade policy and programming needs require a strong institutional base for their successful implementation, and it is these organizationally-intensive activities where problems of implementation often arise. At the same time, those initiatives that will be required to move to a lower, more uniform tariff structure depend on political support.

Some of the export promotion mechanisms being used in Egypt vary in the range of exporters that they target, and in the bureaucratic intensity that they require. Export processing zones are limited to firms producing exclusively for foreign markets. Yet they have relatively low administrative and regulatory requirements. In contrast, duty drawbacks and exemptions are inherently broad-based in their firm coverage, but present

[3]Investment policies are closely related to trade policy initiatives and are similarly dependent on government bureaucratic capabilities and political adaptability. Reforms in this area are based on the elimination of discriminatory investment regimes, and on the adoption of investment incentives.

Box 1
Organizational Initiatives for Trade-Related Policies and Programs

	Policy Reforms and Programs	
Level of Organizational Initiatives	**Trade Liberalization and Exchange Rate Policies**	**E..port Promotion**
Low: ***Stroke-of-pen* reforms**	Eliminate NTBs to trade Reform tariff structure Abolish entry requirements Eliminate ad hoc tariff exemptions Unify the exchange rate Remove administrative dis-cretion in allocation of for-eign exchange for imports	
Middle: **Create new organizations**		Establish export processing zones Provide technical and marketing support to potential exporters Create "one-stop shops" to streamline bureaucratic requirements for exports
High: **Reform existing organizations**	Simplify entry procedures	Provide duty drawbacks or exemptions for direct and indirect exporters Target subsidies on limited activities to offset market failures Establish mechanisms for exporters to secure access to working capital

Source: Based on Levy (1993).

administrative obstacles. This apparatus was, until recently, especially cumbersome in Egypt.

D. INSTITUTIONAL AND POLITICAL OBSTACLES TO REFORM

Taken alone, trade policy reforms that broadly reduce tariffs and NTBs to trade can have little or no effect on a country's trade performance when government bureaucracies or political inflexibilities impose institutional and regulatory obstacles to trade. A gradual approach to reform that reflects institutional and political rigidities, rather than an explicit policy, is inherently inefficient and sub-optimal in terms of the design of economic policies and programs aimed at trade policy reforms. It is therefore important to determine early on whether the observed gradual reform process in Egypt is the result of an explicit trade reform strategy, or whether it reflects bureaucratic and political obstacles to what could otherwise be a rapid transition to an outward-oriented economy.

Institutional obstacles to trade reform provide a significant explanation to the uneven experiences of countries undertaking reforms since the mid-1980s (IMF, 1993). These institutional obstacles have been separated in a World Bank study reviewing trade reform programs by Levy (1993) into organizationally-related obstacles and politically-related obstacles, different combinations of which can determine the path of reform. Levy summarizes the possible combinations of these institutional obstacles as follows:

Political Commitment	Organizational Capacity	Reform Opportunities
Low	*Low*	*Limited prospects for reform*
Low	*High*	*Roundabout reform programs needed*
High	*Low*	*Radical dismantling of institutions needed*
High	*High*	*Abundant reform opportunities*

At the two extremes, where political commitment and organizational capacity are either both high or both low, the implications for reform are clear. Countries with a high a political commitment towards reform and a government bureaucracy with the capacity to undertake the reforms can choose from a broad menu of reform policies, including those that are broad based. Those at the opposite extreme have limited prospects for reform.

Between these extremes there is an important distinction between a country's organizational capacity to undertake reform and its political desire to do so. Those countries with a low political commitment but a high organizational capacity of government bureaucracies to undertake the reforms will need to establish programs and policies that strengthen the productive sector, without challenging the political interests of the inefficient groups.

Countries with low organizational capabilities but a fairly high political commitment to reform will need to dismantle the nonessential institutions and regulations in order to bring about substantive changes. The resulting cutbacks in the size and role of the government will support reform efforts through the elimination of administrative regulations and organizational rigidities that act as disincentives to trade. To improve organizational capabilities, concurrent efforts need to be made in the support of those institutions and regulations essential to reform through technical cooperation activities.

The determination of the Egyptian Government's commitment to the reform process and its organizational capacity is therefore critical in the design and sequencing of trade policy and customs reforms. This level of commitment and capability can nonetheless be difficult to determine. As is common among government bureaucracies having different and varying functions, the degree of support of the reform process can vary considerably. In the absence of either an effective presidential cabinet or a super-ministerial council charged with coordinating economic policies, such variations can eventually lead to mixed signals in the trade policy and customs reform process.

BOX 2
EXPORT COMPETITIVENESS

Comparative Advantage and the New Theory of Trade

Knowledge about the products in which the Egypt has a comparative advantage can help to determine outward-oriented policies. In the original Ricardian model, countries tend to export goods in which they have a relatively high productivity, specifically those products in which labor is most efficient. Later, Heckscher and Ohlin developed the theory that countries tend to export goods that are intensive in the factors with which they are abundantly endowed. In practice, it seems that Egypt has been using both approaches in the development of its export sector. According to Ezz-El Arab (1992) and Fostener and Ballance (1990), Egypt is endowed with natural resources and labor, and has developed a relatively high productivity in labor-intensive and natural resource-intensive products that are competitive in the world markets. However, trade distortions have prevented Egypt from developing its export competitiveness in any of these areas.

Comparative advantage provides a reasonable, yet incomplete, explanation of trade. In recent years a new approach to international trade has dealt with the economies of scale and product differentiation that countries like Egypt can obtain by trading in international markets. According to this theory, by differentiating their products, countries can develop some degree of market power and engage in monopolistic competition. In this way Egypt could offer more of its product to its foreign markets at a lower price. As long as the demand for its exports is price elastic, Egypt would be able to increase its foreign exchange earnings by an amount that is more than proportional to the decline in its relative export price. Thus, Egypt would be in a position to reap the maximum returns not only from exporting those products in which it has a comparative advantage but also from differentiating its products from competitors and developing strategic trade policies (for an analysis of the theory, dynamics, and trade policies in the new approach to international trade, see Lord, 1991).

Ready-made garments and other manufactures are more easily differentiated than primary commodities. Because manufactured products have more value added than do primary commodities, producers have a greater opportunity to make a manufactured good different from the same type of good produced in other countries. Once producers begin to differentiate their goods actively from others, a new form of trade emerges. In addition to inter-industry trade (or trade between different industries, which is associated with the factor productivity and endowments of a country), there also exists intra-industry trade, or trade within the same industry. This intra-industry trade is associated with the need or desire of a country to specialize in the production of a few products in order to achieve economies of scale, while enabling it to consume a greater variety of goods through increased trade.

(cont'd)

BOX 2 (cont'd)
EXPORT COMPETITIVENESS

Measuring Export Competitiveness

In practice, one can make inferences about the comparative advantage of a country like Egypt by examining the performance of its exports. When large quantities of a product are exported by a country relative to the amount of the product that is traded in the world, it suggests that the country has a comparative advantage in the production of that good. Indices of trade performances are then a way of revealing the comparative advantage of countries. The index of revealed comparative advantage (RCA) adjusts a country's exports for the size of the country and the significance of the product in the country's total exports of those types of goods. When the value of the index is greater than one, it implies a measurable degree of comparative advantage in a product category; when it is less than one, it suggests a comparative disadvantage.

By its very nature the RCA index can provide only a general indication about export performances. One limitation of the index is that the values of the RCA index cannot differentiate between trade driven by a country's natural comparative advantage and trade that is motivated by trade policies, real exchange rate changes, and commercial policy arrangements, among others. Thus, it is possible that a country's export performance reflects not so much its comparative advantages (in terms of factor productivity or endowments) as the effects, for example, of a preferential arrangement or an export subsidy that artificially increases exports during the period under consideration. Despite its limitations, considerable information can be derived from RCA calculations, particularly with respect to the export performance of a country like Egypt in specific products and its competitive position relative to other suppliers to a market.

BOX 3
INTRA-INDUSTRY TRADE AND FOREIGN DIRECT INVESTMENT

A large portion of world trade takes place between countries exchanging the same types of goods, particularly manufactured products. Indeed, trade between countries in goods originating from the same industry accounts for as much as one-half of all goods traded by the industrialized countries (Grubel and Lloyd, 1975). This intra-industry trade (IIT) cannot be explained by the usual comparative advantage arguments. Instead, the explanation for this type of trade is based on economies of scale, whereby costs decline as output increases, and the fact that scale economies promote the production of differentiated goods. Thus, countries with similar endowments and factor proportions can nonetheless exchange differentiated goods. Under these circumstances, firms within an industry can specialize in the production of a few goods and compete in the international markets for those goods, while consumers in that country can purchase goods from the same industry that are made both at home and abroad. IIT therefore provides the benefits of large markets to countries like Egypt by reducing the number of goods that are domestically produced and by providing variety to consumers.

The growth of IIT trade has been related to the worldwide expansion of foreign direct investment. Apart from industry trade flows associated with the participation of foreign companies in the domestic output of both the industrialized and developing countries, a rapidly growing portion of trade related to international investment is emerging as a result of the operations of multinational corporations and their affiliates abroad. These types of foreign direct investment have been motivated by the desire of companies to exploit the comparative advantages of countries and by their interest in obtaining economies of scale from enlarged markets. As multinationals increase their penetration of both domestic markets and foreign markets where their affiliates are located, their enlarged market is likely to lead to increased production of differentiated goods in order to respond to the varying demand patterns that exist from one country to another.

Although IIT in primary commodities accounts for 30 percent of total world trade in these goods, it is in manufactures that IIT predominates since the greater value added in these products provides more possibilities for differentiating the goods. There are essentially two ways to differentiate goods: either through *horizontal differentiation* based on specification (design), location, or brand name, all of which make the consumer perceive a good as being different from another; or through *vertical differentiation*, which arises from variations in the quality of a good. Among manufactured goods, there is usually a greater amount of IIT in human capital/technology-intensive goods, which have a higher level of product elaboration, than in natural resource/unskilled labor-intensive goods.

(cont'd)

BOX 3 (cont'd)

INTRA-INDUSTRY TRADE AND FOREIGN DIRECT INVESTMENT

(cont'd)

The measure of IIT compares a country's proportion of exports and imports of goods from the same industry relative to that country's total trade. This can be computed at different levels of aggregation, although the common procedure is to define an industry at the 3-digit SITC level. At this level of aggregation it is possible to make inferences about the interdependence of trading partners, although it can also lead to the inclusion of products that are imperfect substitutes for one another, either in consumption or production. For instance, included in the textile yarn category are wool, cotton, and synthetic products. Knowledge about IIT in Egypt can, nevertheless, suggest the types of goods in which trade and foreign direct investment could be promoted.

Egypt's major export market are the European Union (28 percent of total exports in 1991), the Middle East (10 percent), the United States (8 percent), and the former USSR and Eastern Europe (6 percent). Egyptian trade with other Arab states has been limited. There have been numerous initiatives to expand trade within the region, but with few practical results. Nevertheless, it is with these countries that there is normally a greater potential for IIT. These shifts in trade patterns are particularly important for Egypt as the country increasingly redirects trade away from the former Soviet Union and eastern European countries. As the Arab countries expand their exports of manufactures to other developing countries, direct foreign investment will likely play an increasingly important role in the potential amount of IIT that could possibly exists among the Arab states and between Egypt and African countries.

III. EGYPT'S RECENT REFORMS

A. THE ECONOMIC REFORM AND STRUCTURAL ADJUSTMENT PROGRAM

In 1991 the Government of Egypt introduced comprehensive reform measures under the Economic Reform and Structural Adjustment Program (ERSAP) which extends through June 1995. The reform program was a condition for external debt reductions agreed with Paris Club creditors, and was undertaken as part of a Structural Adjustment Loan (SAL) agreement with the World Bank and a standby agreement with the International Monetary Fund (IMF), approved in May 1991. In July 1992 a second tranche was linked to the level of implementation of reform measures undertaken by the Government.

The ERSAP addressed the structural imbalances that prevailed in the last decade, which were reflected in rising unemployment rates, a growing trade deficit, and an expanding foreign debt. The three cornerstones of the program are stabilization, liberalization, and privatization. As such, it seeks to introduce substantial broad-based reforms to the economy. Fiscal spending restraints have been introduced; foreign exchange and interest rates have been liberalized; reforms have been introduced to the banking sector, including the introduction of indirect monetary control instruments; controls have been reduced on trade, investment, and prices; petroleum prices have been brought into line with those of the world market; and reforms to the tax system have been made, including tariff adjustments and the introduction of a general sales tax. Slower progress is being made in privatization of public enterprises, the implementation of a VAT, and the reform of the income tax.

These reforms have brought about substantial changes in key economic indicators (see Appendix B, Table 1). The fiscal deficit has been reduced from over 17 percent of GDP in fiscal (July-June) 1990/91 to around 5 percent in both 1991/92 and 1992/93; the target share for 1993/94 is 2.5 percent. The current account has moved to a surplus position, largely as a result of capital repatriation, exchange rate stability, and interest rate differentials which, in turn, have led to an accumulation of international reserves equal to 16.7 billion Egyptian pounds in 1991/92. Interest rates rose after their liberalization and have since gradually fallen, and inflation is moving towards single digit levels (for a comprehensive review of Egypt's current program of structural adjustment and institutional reform, see Handoussa, 1993a, 1993b).

Since the nominal exchange rate has remained virtually unchanged against the US dollar since mid-1991, the Egyptian pound has appreciated and the competitiveness of non-oil exports has deteriorated. The IMF (1993) has argued that the continued reduction in the fiscal deficit will ease financial system pressures. A reduction in the pace of monetary expansion would lower interest rates and the inflation rate, and the resulting moderation in capital inflows would reinforce the downward trend in interest rates and the rate of inflation. The IMF has argued that lower capital inflows would encourage a nominal depreciation in the exchange rate which would help to restore the international competitiveness of Egypt's exports.

Stabilization has been successfully achieved through the coordination of monetary, fiscal and exchange rate policies. The task that lies ahead is the implementation of structural reforms through trade and investment initiatives and regulatory reforms that will impact on the real sectors of the economy. These include decontrols of trade, investment and capital markets, the implementation of a global income tax, fiscal management of the budget and expenditures, an accelerated privatization effort, reforms of the banking sector, and the effective operation of the Central Bank's indirect monetary control system.

B. TRADE POLICY REFORMS AND PROGRAMS

The objective of Egypt's structural reforms in the area of trade and exchange rate policies has been the establishment of a private-sector-based, export-led growth under a market economy. The ERSAP seeks to develop instruments designed to achieve trade neutrality that will generate an outward orientation of the Egyptian economy.

To date, the major reforms have been the reduction of NTBs and the restructuring of tariffs. The following schedule of tariff reductions are programmed as part of the agreement with the IMF (for details, see Box 4):

- *February 1994*: The maximum tariff rate reduced from 80 to 70 percent; tariff rates between 30 and 70 percent lowered by 10 percentage points; those under 30 percent are unaffected. This reduction was originally scheduled for December 1994.

- *December 1994*: The maximum tariff rate reduced from 70 to 60 percent; tariff rates between 30 and 60 percent lowered by 10 percentage points; those under 30 remain unchanged.

- *December 1995*: The maximum tariff rate reduced from 60 to 50 percent; tariff rates between 30 and 60 percent lowered by 10 percentage points; those under 30 remain unaffected.

Under the World Bank SAL agreement, the Government has agreed to reconsider the 50 percent tariff ceiling in mid-1995, and plans to implement further reductions at the end of 1996.

BOX 4
IMF MATRIX OF TRADE POLICY ACTIONS

Instrument	Action Taken by End-1993 a/	Action Taken by Mid-1994	Action Taken by End-1994	Action Taken by Mid-1995
Tariffs	Reduce maximum tariff rate to 70%. Reduce tariffs between 30% and 70% by 10 points. Rate below 30% unaffected.		Maximum tariff rate lowered to 60%. Tariffs between 30% and 60% lowered by 10 points. Rates below 30% unaffected.	Maximum tariff rate lowered to 50%. Tariffs between 30% and 50% lowered by 10 points.Rates below 30% unaffected.
Import Prohibitions	Allocate tariff rates on prohibited imports within agreed tariff structures.	Prohibitions on poultry removed. Prohibition on textiles and garments reviewed in context of the MFA and GATT 1994		
Tariffs on Capital Goods	Lower tariffs on select capital goods to 10%; plan reduction on other cap. goods to 5 or 10%		Implement program of tariff reductions on remaining capital goods.	Complete tariff reductions on capital goods.
Maximum Tariff Exemptions	Program elimination of exemptions to max. tariff (excl. alcohol).	Eliminate max. tariff exemptions on cigarettes and autos of over 1600cc; replace with excise tax.	Reduce tariffs on autos of 1300cc- 1600cc to maximum tariff.	
Import Preferences	Eliminate tariff preferences, except health and tourism, and those governed by international treaties.	Eliminate tariff preferences for tourism (excl. alcohol).		Eliminate tariff preferences for health.
Anti-Dumping and Countervailing Duties	Program safeguards, anti-dumping, and countervailing duties. Program harmonization of quality control standards and fees.	Implement plan for safeguards, anti-dumping, countervailing duties, and standard quality control mechanism.		
Trading Companies	Draft law allowing foreign trading companies to operate on equal footing with domestic companies.			
Standards Requirements	Draft law eliminating all remaining restrictions on private sector trade with sanitary certificate for imports. Introduce Harmonized System of Classification.			
Customs Procedures		Review and streamline customs procedures.		

Source: IMF, Memorandum from Arab Republic of Egypt - Request for Extended Arrangement - Letter of Intent. EBS/93 139 August 20, 1993.

Distortions currently remain from tariff rate differentials, regulatory controls, and customs procedures. Banned imports were allocated tariff rates within the agreed tariff structure, except for textiles, garments and their by-products, and poultry. The ban on poultry will be removed by mid-June 1994. Tariffs on capital good imports will gradually be lowered to either 5 or 10 percent, depending on the group into which particular imports fall. Equally important are the customs regulations and procedures that cause shipment delays and resource misallocations for individual firms that incur large opportunity costs from these measures.

C. DONOR ACTIVITIES

Four major donor agencies have operations directly or indirectly related to the present trade policy project sponsored by USAID. These agencies are directorates within USAID, World Bank, UNDP, and the European Union. Although the Food and Agriculture Organization is active in Egypt, its activities consist primarily of crop production, veterinary research, and water resources projects, and therefore do not impact on trade policy issues.

1. USAID

The Sector Policy Reform Program of USAID provides for the following trade policy reforms during 1993:

- The Government of Egypt should review all banning decrees issued by Ministries or other government bodies to ensure consistency with official government policy on bans.

  Status: The present study aims to document problems associated with the banning decrees.

- The Government of Egypt should reduce the number of tariff preferences by one half.

  Status: Reductions from 29 to 2 items were made at the end of July 1993; these require documentation.

- The Government of Egypt should eliminate 5 of the 9 special conditions for imports. These special conditions severely restrict imports of petroleum products or civilian goods domestically produced by military factories.

  Status: All special conditions were eliminated at the end of July 1993; these require documentation.

- The Government of Egypt should develop a plan to implement the recommendations of the USAID Quality Control Study.

  Status: In process.

- The Government of Egypt should develop a plan to implement the recommendations of the present study.

  Status: In process.

- The Government of Egypt should develop a plan to allow foreign companies to participate fully in the insurance sector.

  Status: Several steps have been taken; these need to be consolidated into a comprehensive plan.

A trade-related component of the Sector Policy Reform Program for the enterprise sectors is as follows:

- The Government of Egypt should remove all price controls from hotels, restaurants and other businesses associated with tourism.

  Status: The price liberalization study will address this issue. The study is to begin in mid-1994.

The recently completed Quality Control Mechanisms project, prepared for the USAID's EAP, assessed the regulatory environment of imported and exported products subject to health and sanitary requirements. The report defines the regulated products, describes the underlying reasons for their regulation, and assesses the performance of the government agencies responsible for policy implementation. It also discusses regulations and practices that impact on trade. The findings of the study reveal that considerable overlap exists among government agencies involved in the formulation, implementation, and monitoring of regulations. This duplication leads to delays in the placement of goods on the market and to increased costs that must be borne by the importer and exporter. The report concludes by recommending specific guidelines to implement an organized and transparent quality control regulatory framework, and an institutional reorganization to create a more efficient system.

The EAP also plans to undertake a study on price liberalization in Egypt within the next few months in order to assess the achievement of the Government's economic reform program and to evaluate the actual and expected impact and implications on price levels (excluding utilities, financial services, agricultural output and energy). A study will be prepared on government regulations and practices affecting prices and market transactions, including subsidies and monopolistic practices undertaken by governmental and private sector entities. Surveys will be undertaken throughout the relevant government ministries, retail and wholesale establishments, and other private businesses in order to identify the extent of price control and determine the major players in the market. The results of the investigations will be used to formulate policy measures for the next stage of the policy reform process.

The Agricultural Resources Directorate and the EAP recently sponsored a joint project on Egypt's cotton textile subsector; it was completed in June 1993. The study evaluated the financial and economic situation of Egypt's cotton textile industry to develop an overall strategy leading to the industry's liberalization and privatization. One of the major findings was that industry participants should be advised on the rules of privatization, and that those rules should be progressive, time-specific, and protected from vested interests. Low domestic and international cotton prices, phytosanitary requirements, and the recent weak financial performance of public sector companies point up the difficulty that policymakers are now encountering while contemplating structural reform. Recommendations made by the study team were divided into two phases, one of which is proposed for the 1993/94 to 1995/96 cotton market season; the second, four to five years thereafter.

In addition to ongoing private sector projects in the Office of Finance and Investment of USAID/Cairo that will have an important impact on Egypt's capacity to compete internationally, the Office of Agricultural Credit and Economics recently proposed an agricultural trade policy study that will analyze the impact of trade policy reform on one particular economic sector. This study aims to identify the major trade policies that inhibit agricultural development, assess the impact of those policies, and develop recommendations for eliminating policies that distort resource allocation in agriculture. The study will be closely coordinated with the macroeconomic aspects of the Food Security Study currently in preparation by International Food Policy Research Institute and will incorporate analyses of protective tariffs, phytosanitary controls, import bans, and exchange rate policy. Output of the project will include a conference paper to be presented at the Agricultural Policy Conference sponsored by the Agricultural Production Credit Project in September 1994.

2. World Bank

The World Bank's resident representative office in Cairo recently completed a private sector assessment of Egypt that will be published within the next few months. That assessment represents the first of a two-part plan to stimulate private sector export-led growth through the promotion of the country's awareness of the private sector agenda in the reform process. The design of specific policy recommendations to relax constraints on private sector development is left for the second stage.

The main purpose of the private sector assessment is to underscore the magnitude and urgency of the private sector development task that lies ahead on the road of economic reform. As such, it focuses more on the nature and dimension of the private sector challenges than on specific ways to address those challenges. The objective is to put private sector development at the top of Egypt's agenda for economic debate and to enhance the country's awareness of that agenda. To highlight areas of concern, over 250 firms were surveyed throughout the country. The results of that effort, which will be available when the publication is released, enabled the constraints on private sector development to be ranked. Two survey questions relating to trade were included in the report, and they focused on a whether or not the business exports its product, and to whom sales were made during the last year.

As a follow-up to this assessment, it would be important to focus on constraints to private sector trade-related activities. Questions to be addressed include the degree to which customs regulations inhibits private sector activities in traded goods and services, and the extent to which administrative procedures, or "red tape" act as a deterrent to trade. As a complement to the upcoming second stage of the World Bank's private sector assessment, either the World Bank or USAID could contribute to the reform process through the assessment of trade-related constraints on private sector activities in Egypt.

3. UNDP

The United Nations Development Programme (UNDP) has allocated $41.5 million to Egypt during the period 1992-1996 under its 5th Country Program. The funding level remained unchanged from its 4th Country Program; however, the approach to the present program was modified. The present program strategy is targeted more at an operational level than in the past to gain a cross-sector view of the economy; previous programs focused on many smaller-scale projects in order to promote particular sectors of the economy. The UNDP also supports the Technical Secretariat of the High Officials' Committee by providing funding and international consultants who are directly hired by the Government of Egypt.

At present, the UNDP has no sponsorship for programs directly linked to trade, although trade may become an important component in future programs. Indeed, an idea for a future project on the promotion of trade between Egypt and Eastern Europe is presently being formulated. A current UNDP program that is indirectly linked to USAID's work on trade policy is focused on economic restructuring, and is also called ERSAP. This program has four sub-programs: the Social Fund, the Privatization Program, the Human Development Program, and the Environment Program. Of those four areas, the Privatization Program has two separate projects that aim to promote business operations and trade in Egypt. The first project, the Entrepreneurship Project, is presently in the pipeline pending availability of funds, which will be equally provided by the private sector and the Government of Egypt. The objective of the project is to offer technical assistance to a core group of entrepreneurs for a maximum period of 18 months per person in order to carry out their business ideas. Informally known as the "Incubator Project," the project will provide workshops to participants on subjects related to specific areas of business operations (e.g., marketing, finance, training, and management) and to all stages of a business (e.g., a business plan and its implementation), which may or may not have an international trade component. Workshops related to international trade (e.g., export and import procedures, customs duties) will be provided on an as-needed basis; additionally, access to industrial parks will be provided. The Alexandria Businessmen's Association is managing this project and already has a building available in which seminars and workshops will be held. The second project, the Securities Market Development Project, aims to develop capital markets and securities markets institutions. This project is also indirectly linked to trade in that it will create financial mechanisms through which companies can expand their operations in both domestic and foreign markets.

4. European Union

The European Union (EU), like the UNDP, is not presently involved in trade policy projects, nor does it expect to study this area in the near future. The EU's current portfolio of programs comprises four large technical assistance projects: (1) a public sector reform project that aims to restructure non-privatizable companies; (2) a private sector development project, for which long-term consultants were recently recruited to design a scope of work in order to provide technical assistance and advisory services to Egyptian private enterprises; (3) an agriculture project, under which lines of credit are being established in order to develop private sector agriculture and to strengthen infrastructure, such as canals; and (4) an umbrella project than encompasses the environment and population policies.

IV. INSTITUTIONAL ANALYSIS OF POLICY FORMULATION

A. GOVERNMENT BUREAUCRACY IN THE REFORM PROCESS

The Egyptian government bureaucracy is organizationally and administratively broad-based, and this characterization extends to the regulatory framework for trade. Figure 1 presents the organizational framework of the executive branch of the Government. The President of the Republic selects his cabinet, which consists of the Prime Minister, the ministers and the deputy-ministers. The Central Bank of Egypt is autonomous and has a position equivalent to deputy-minister to the Prime Minister. Thus it supersedes the position held by the ministers in the government hierarchy. The Cabinet is supported by a technical secretariat, whose role it is to provide data and analysis. Its funding sources are the UNDP, the EU, and the African Development Bank.

Trade policies are formulated through a complex system. The Ministry of Economy and Foreign Trade guides trade policy reforms (see Figure 2), and the Ministry of Finance participates in all matters related to customs and tax revenue policies. Implementation of trade policies also involves the Ministry of Industry and the Ministry of Agriculture, both of which regulate imports in their respective areas. The most important committees affecting trade policy reforms are the following:

- *Cabinet Policy Committee* - It establishes and monitors broad economic and social policy issues, and sets guidelines for trade policy. The President presides over this committee.

- *High Ministerial Economic Reform Committee* - It addresses the key issues of the stabilization and reform program. These issues consist of trade liberalization, price liberalization, macroeconomic policy reforms, public enterprise reforms, and privatization.

- *Economic Group of Ministers* - It is responsible for the coordination of rules and regulations governing trade and other economic activities.

Decisions in each of these committees often include consultations with private sector organizations, such as the Egyptian Businessmen's Association, the General Federation of Chambers of Commerce, the Federation of Egyptian Industries, the Egyptian Trade Union Federation, and the Banks' Association of Egypt.

FIGURE 1
GOVERNMENT OF EGYPT
KEY EXECUTIVE BRANCHES IN POLICY FORMULATION

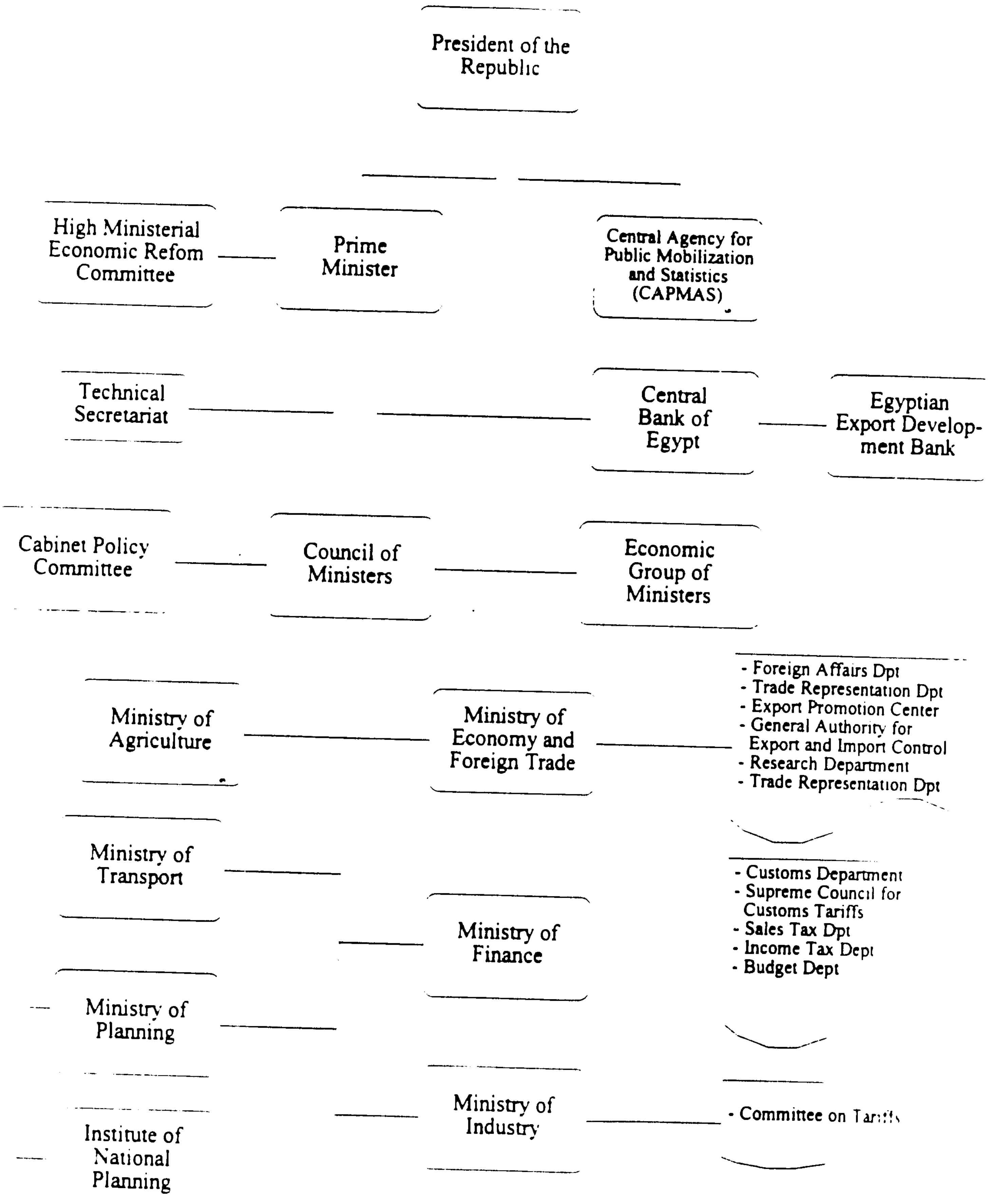
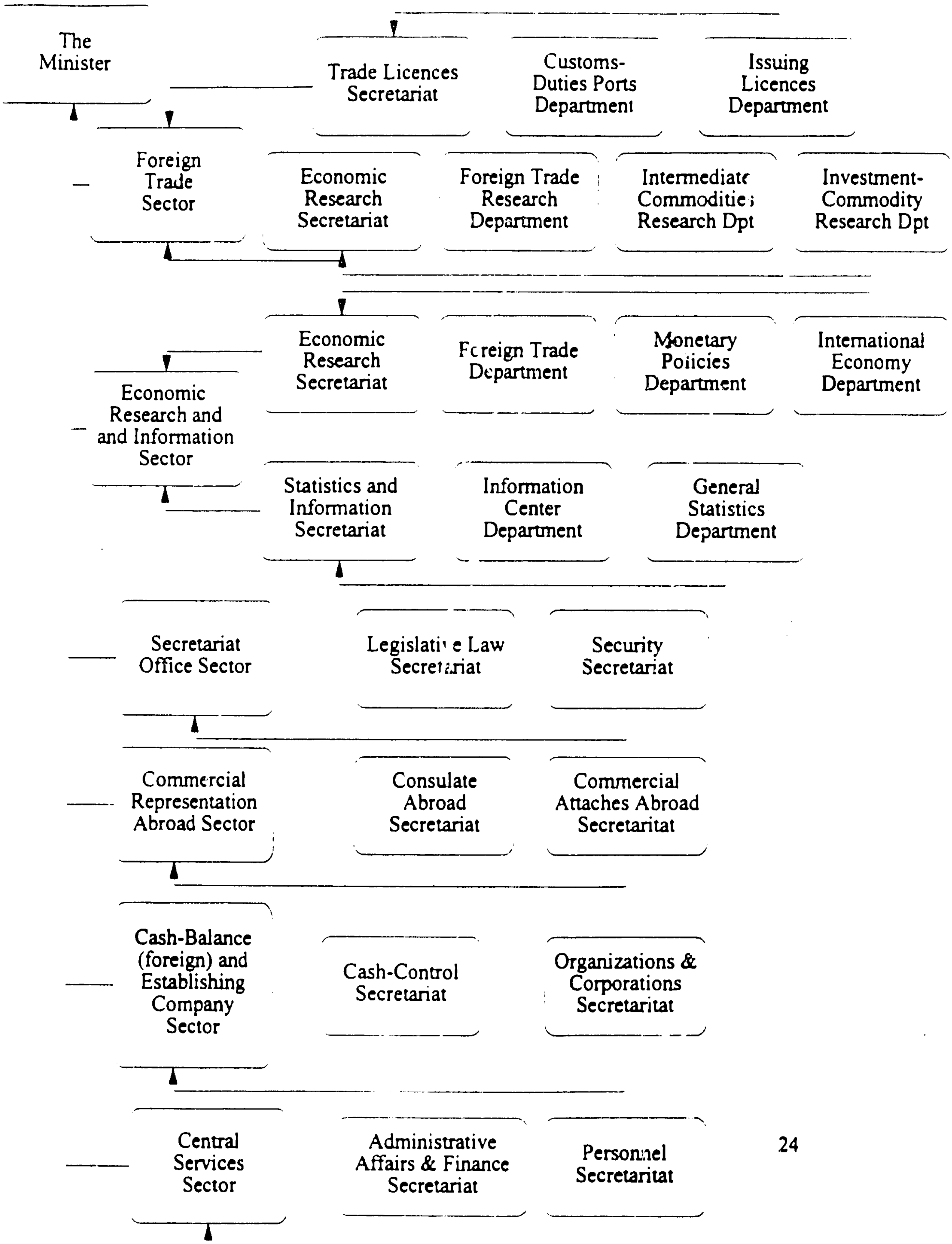


FIGURE 2
MINISTRY OF ECONOMY AND FOREIGN TRADE



High Ministerial Economic Reform Committee - The Prime Minister heads the High Ministerial Economic Reform Committee, which is composed of the economic ministries (Ministry of Economy and Foreign Trade, Ministry of Finance, Ministry of Planning,[4] Ministry of Supply and Internal Trade, Ministry of Industry, Ministry of Agriculture, and Ministry of Transportation).[5] The High Ministerial Committee guides the implementation and timing of the reform program, monitors the reform process, and coordinates institutional support of the reform.

The High Ministerial Committee, headed by the Prime Minister, guides the implementation and timing of trade liberalization, price liberalization, macroeconomic policies, public enterprise reforms, and privatization. Below this committee is the High Officials Committee which prepares regular reports on the economy and recommends courses of action.

Cabinet Policy Committee - One of the principal functions of the Committee is the determination of issues affecting the agricultural, industrial, and financial sectors. It includes the prioritization of large-scale projects that require financial and development support; it also includes decisions on whether or not to implement infrastructural projects that require the support of more than one ministry, and which require the direct intervention of the Prime Minister. A related function of the Committee is the consideration of international agreements with multinational petroleum companies. These agreements, once approved, are submitted to the Parliament for ratification.

Economic Group of Ministers - The function of the Economic Group is the coordination of policies set forth by different ministries. It is composed of the Ministry of Economy and Foreign Trade, Ministry of Finance, Ministry of Agriculture, Ministry of Industry, and Ministry of Transportation. It is here that policies of different ministries on trade and customs regulations are coordinated.

[4]The Ministry of Planning prepares five-year plans, which are reviewed annually. By its very nature, the five-year plan needs to be broad-based. The 3rd Five-Year Plan covers the period 1992/93 to 1996/97 (Ministry of Planning, 1992). For example, within a broad policy framework of trade and exchange rate liberalization, the plan establishes an export earnings growth rate target of almost 15 percent a year during the forecast period, and a concurrent 3.5 percent annual increase in imports. However, the Ministry lacks the capacity to undertake economic policy simulations which would otherwise assist policymakers in formulating trade strategies.

[5]Until recently the High Ministerial Committee included the Ministry of International Cooperation. In October 1993, however, the responsibilities of that ministry were shifted to the Office of the Prime Minister. Government officials of the ministry now report directly to the Prime Minister. This change came about because many of the functions of that ministry were being duplicated by the Ministry of Economy and Foreign Trade.

Ministerial departments tend to redirect their activities when changes in their functions occur. For instance, the Cash-Currency Affairs Secretariat is no longer responsible for the control of cash. Under Law 159 the Secretariat is now responsible for the authorization of new private companies. This fungibility suggests that the dismantling of the bureaucratic framework can occur through the legislative process introducing trade policy reforms to the system.

B. EXPORT PROMOTION AGENCIES

Export promotion is crucial to the success of trade policy reform and usually takes the form of persuading firms to export and then providing services to support export marketing. Export promotion activities are widely known to take place in the public sector. Indeed, the World Bank has limited its efforts to public sector institutions (World Bank, 1992): in Indonesia, programs were instituted to strengthen marketing and production management; in Mexico "one-stop shops" were established; and in Ghana, institutional strengthening was provided to the Cocoa Marketing Board and the Gold Mining Corporation. A recent article on the reasons for the failure and success of export promotion organizations published by Keesing and Singer (1992) characterizes effective and ineffective trade promotion centers. Public sector export promotion centers that have been successful usually meet four criteria (see Box 5): (1) they have the support of the business community; (2) they are adequately funded; (3) they are staffed with qualified people paid commercially competitive salaries; and (4) they are somewhat independent of the Government. These centers usually exist in countries where trade policy reform was implemented before the creation of such centers, and where a strong policy is in place to expand exports, such as in many Asian and OECD countries.

Characteristics of ineffective trade promotion centers include: (1) the unsuitability of government employees to the task; (2) the inflexibility of government procedures on expenditures and staffing; (3) the confusion of purpose resulting from the assumption of regulatory and administrative roles; (4) the perpetuation of wrong attitudes and strategies; and (5) an unfocused approach that limits the information provided to potential importers. Usually such organizations were created before structural adjustments took place and often become an obstacle to the creation of new and better support services. In general, countries like Egypt need access to services at the firm level, generally from private firms and consultants from more advanced countries, to compensate for their limited domestic expertise.

1. Trade Development Center

The Trade Development Center (TDC) was established in March 1992 by private sector funds; its sole mandate is to expand Egyptian exports. The TDC is currently focusing its efforts on light manufacturing industries (ready-made garments, leather products, household goods), fresh fruits, and vegetables. Additional funding was provided

BOX 5
PROFILE OF AN EFFECTIVE TRADE PROMOTION AGENCY

Origins

- Established as a result of demand from exporters, most often with private sector funds, rather than as a result of donor funding.

Planning and Objectives

- Established corporate planning, individual targets, and measurable departmental objectives.
- Role is to expand exports, rather than to provide policy advice or carry out a national export strategy.
- Displays consistency in focus on specific industries in short and medium-term strategies.
- Conducts, using own resources, competent, formal subsector studies of industries with export potential.

Relationship with Government

- Provides link between business community and government.
- Involved in government policy to the fullest extent possible.

Relationship with Business Community

- Maintains and creates strong ties with exporters; faces little resistance in increasing participation in export trade promotion.
- Maintains diverse channels of communication and immediately distributes new information widely to exporters.

Relationship with Donor Agencies

- Organization is effective in soliciting donor funds in order to obtain technical assistance.
- Reviews of organization are positive.
- When necessary, organization has complied with major reform proposals.

Missions and Trade Fairs

- Missions and trade fairs form one component of the agency's portfolio of export promotion techniques.
- Missions are dominated by private exporters, rather than by agency staff.
- Selection of mission participants based on need, rather than on non-commercial considerations, such as maintaining regional balance, favoring indigenous entrepreneurs, or by drawing lots.
- Objective of mission and fairs is to make concrete business contacts and generate orders.
- Follow-up to assess impact is considered essential.

Management

- Chief executive officer is appointed by an independent board of directors, rather than by a government ministry.
- Top managers have commercial expertise.
- Top managers have extensive management experience with proven successful track records.

Staff

- Staff are paid at commercially competitive rates.
- Many spend most of their time calling on firms to promote exporting or their services.
- Staff structure is streamlined to ensure efficiency, rather than being overloaded with unmotivated clerical staff and top managers who are actively looking for a way out.

Source: Keesing and Singer (1992).

in 1993 under the USAID Export Enterprise Development (EED) Project for a period of five years; at present, 31 people are employed by the TDC EED Project. While the exact number of participating exporters is unknown, it is known that only large exporters work with the TDC. According to the chief of party of the EED Project, management is currently revising its strategy because it initially found obstacles that have complicated the achievement of the organization's ultimate goal of promoting exports. Once these issues are addressed, the foundation for active export promotion strategy will be laid out. This phase is expected to be completed within the next six months. A second phase, to take place during the following six months, will define and implement sales targets, and marketing, promotion and financial strategies. The restructuring of the TDC's overall strategy will expand the former narrow focus of marketing to a broader scope of work.

The TDC offers its services to exporters through two means: the first method is simply to respond to requests made by exporters themselves; the second is to create a linkage between clients, including tripartite arrangements, in order to create export opportunities. A combination of these two methods is currently being employed in the TDC's agricultural strategy in order to promote citrus exports by a selected group of exporters. Those who benefit from these services are primarily large enterprises, although the TDC envisions that, in the long run, a broader range of exporters will use its services.

The TDC also provides a link between the private and public sectors. Common issues and complaints, often expressed in formally written letters to the TDC Executive Director, focus on the drawback system and sales tax. Issues are also relayed to government officials through the representative of the Ministry of Industry, who is a member of the Board of Directors. The involvement of that ministry representative is limited to issues that arise at the macro level, such as financial planning and the restructuring of the budget, rather than those at the micro level in daily operations. The TDC is presently working with private sector organizations to form corporations whose members are companies themselves with the objective of presenting their views to government officials in one unified voice.

2. Egyptian Export Promotion Center

The Egyptian Export Promotion Center (EEPC) was established in 1979 as a United Nations project, with the financing of a Norwegian Fund in cooperation with the International Trade Center in Geneva. It operates under the auspices of the Ministry of Economy and Foreign Trade. The reason for its establishment, according to the EEPC Executive Director, was to follow the trend in the late 1970s that established public export promotion centers in developing countries. It appears that a high level of funding continues to be provided by donors For example, a program was recently financed by the EU to promote trade among Arab countries; the Japanese trade organization, JETRO, also recently provided technical assistance to promote certain products. A new program is scheduled to be discussed in early Spring 1994, in which plans are included to solicit funds from Holland.

The general functions of the EEPC are: (1) to store and disseminate trade information; (2) to carry out studies and analyses on export potential; (3) to prepare technical and organizational recommendations on increasing production and eliminating obstacles; (4) to organize training programs in Egypt and abroad; (5) to collaborate with international and national organizations to promote exports; and (6) to cooperate in studies on export incentives. The EEPC also organizes trade missions, participates in specialized trade fairs and exhibitions, links buyers with sellers, and organizes orientation tours for Egyptian manufacturers and exporters.

The EEPC's organizational structure is centralized and it functions primarily through three departments: (1) Trade Information Center, which deals mainly with export and import offices, catalogues, bulletins, and offers personal contacts with potential exports; (2) Agriculture Research Department, which is involved in technical assistance, rather than actual research; and (3) Industry Research Department, whose activities are the same as those of the second department, but related to industrial products. According to the EEPC Executive Director, the Center realizes that it needs to be restructured. In fact, for the first time in its history, it has revised its Board of Directors to include 20 members, 10 of which originate from the private sector. The purpose of this restructuring has been to reduce its dependence on the Government and to attract private sector involvement. Salaries continue to be paid by the Government, however, and there is a limited budget for publications. In fact, the promotional material that was provided by the EEPC dates back to 1979.

The EEPC also recognizes that it must improve its performance and raise its standards; however, no overall strategy is apparent and no quantifiable goals were mentioned. It appears that the principle mechanism the EEPC wants to use, in addition to the input from its private sector Board of Director members, is a membership fee. While the fee itself has been determined to be about US$200, the services to be offered have not been determined. Although EEPC representatives spoke about issues that exporters are currently dealing with, such as the unified tax, the duty drawback system, procurement of inputs, and import and export regulations, no solutions were proposed. Most staff do not have commercial experience and, during the interviews undertaken as part of this study at the EEPC, staff demonstrated little, if any interest in the work of the Center. In sum, it is probable that few exporters use the center, and its organization and management are inadequate for the needs of firms undertaking trade operations. Both donor and government funds would be better channeled to the creation of a private sector promotion agency, or to the strengthening of an existing private sector agency.

V. TRADE POLICIES

Egypt has made substantial progress in reducing its barriers to trade. Between 1990 and 1993 the Government's ERSAP, supported by the World Bank's 1991 SAL, phased out the majority of NTBs to trade and lowered the very high import tariffs. Quantitative import restrictions were halved at the start of the reform, and are currently minimal; quantitative export restrictions were also removed.

Box 6 summarizes important legislation adopted and amended in recent years relating to trade policies as they impact on customs regulations. The framework for regulations on customs duties, rules of origin, customs valuation, administration and procedures including temporary admission, duty drawback and exemptions are provided under Customs Law No. 66/1963, amended in 1976 by Presidential Decree (P.D.) No. 88.

A. IMPORT MEASURES

Egypt's previous import substitution policy was highly dependent on the use of NTBs, which in large part took the form of quantitative restrictions on imports. Many of the measures used to protect industry -- import bans, prior authorization to import, the requirement of a letter of credit for imports, quality standards, and the prohibition of importing used parts or equipment -- were often applied to industries already protected by existing high tariff levels. While many of these NTBs have been dismantled or reduced considerably (e.g., import bans, letter of credit, prior authorization to import), the use of others continues to exist, and, in some cases, increases (e.g., quality standards, limitations on used parts or equipment).

While the economic effects of NTBs to trade are difficult to quantify, they are inferior to import tariffs as a means of providing protection to domestic industry. Tariffs provide flexibility because they allow imports and generate revenue; NTBs, on the other hand, can restrict or ban imports and often benefit those who can compete within restricted competition. The effects of NTBs on trade are to decrease the supply of goods in domestic markets, increase prices for consumers, and transfer income to domestic producers.

Concurrent with the Government's move away from the use of NTBs are the reductions taking place in tariff levels, even though those levels remain high. While the reduction or elimination of NTBs is an important step in restoring the link between domestic and foreign prices, further reductions in tariff levels are important for the efficient allocation of resources. Changes in the tariff structure during recent years suggest that Egypt is following the path of other countries that have undertaken trade policy reforms (Mexico, Morocco, and Turkey); however, the increased use of quality control standards indicates a renewed use of NTBs to trade, and should be limited to health, safety, or religion.

BOX 6
CUSTOMS DECREES IMPLEMENTED BEFORE AND DURING THE ERSAP

Regulation	Pre-ERSAP Reform	Year	Regulation	ERSAP Reform	Year
Customs Law No. 66/63. Amended P.D. No.88/76.	Established general regs. for customs duties, rules of origin, customs valuation, temp. admission, duty drawback and exemptions.	1963	P.D. No. 178/91	(1) Increased tariffs while simultaneously lifting non-tariff restrictions on imports; (2) reduced range of tariffs from .7-120 percent to 1-100 percent; (3) established 10 tariff categories.	1991
P.D. No. 75/80	Revised tariff schedule to correspond to processing stages: raw materials were taxed at lower rates than intermediate inputs; finished products were taxed at the highest rates.	1980	P.D. No. 180/91	Replaced consumption tax with 10% sales tax (with exemptions for exported goods and services and basic foodstuffs consumed locally; reductions to 5% for certain items, and increases to 30% for certain luxury commodities).	1991
P.D. No. 56/81	(1) Described export drawback and temporary admission systems; (2) provided that exporters must establish a cash or bank guarantee to avoid paying duties and sales tax on regularly imported goods under the temporary admission system.	1981	P.D. No. 431/92	(1) Specified application of quality controls for 42 commodities; (2) provided that shipments are to be inspected no later than one week after application submission and payment of required customs duties; (3) imposed new tariff rates on 106 commodities, primarily by reducing customs duties on raw materials and intermediate goods, and raising the duties on finished goods; (4) reduced tariff rates on imported parts for assembly.	1992
M.D. No. 333/1986	Abolished import licensing system; instituted import "ban" list.	1986	P.D. No. 432/92	(1) Removed 33 commodities from the import ban list; (2) allowed the importation of one car for each exporters whose annual proceeds exceed LE 1 million; (3) cancelled advance cash payments by importers to establish letters of credit; (4) reduced to 9 the number of commodities permitted to be imported under special conditions.	1992
P.D. No. 351/86	(1) Reduced tariffs by 50% across the board; (2) reduced tariff categories from 43 to 12; (3) established duty range of 5% to 160%, exceptions included a 1% tariff applied to basic foodstuffs and the continued application of high rates to cars, alcoholic beverages, and luxurious items; (4) introduced tariff rebates.	1986	M.D. No. 288/93	(1) Removed all but 3 commodities from the import ban list and imposed new tariffs on the commodities that were removed; (2) cancelled list of imports permitted to enter country under special conditions; (3) eliminated the remaining item on export quota list, tanned hides & skins; maintained export bans on 2 commodities: raw hides & skins, scrap of	

(cont'd)

BOX 6 (cont'd)
CUSTOMS DECREES IMPLEMENTED BEFORE AND DURING THE ERSAP

Regulation	Pre-ERSAP Reform	Year	Regulation	ERSAP Reform	Year
P.D. No. 187/86	Abolished all additional taxes on imports (e.g., customs statistical tax, the economic development duty, the maritime consolidation duty, and an additional duty on imports and exports imposed by local governments).	1986	M.D.5/ No. 288/93 (cont'd)	iron, steep, copper, and aluminum; (4) added 34 of the 75 commodities removed from the import ban list to the quality controls inspection list (totaling 159 items as of March 1993); (5) permitted all commodities to be traded in barter deals.	1993
M.D. No. 56/88	Established import valuation based on exchange rate prevailing on the day of Customs Declaration registration.	1988	P.D. No. 294/93	(1) Raised minimum local content requirement from 40% to 60% (with exemption of the higher limit by the Minister of Industry) for basis of tariff calculation for imported parts used in assembly industries; (2) removed all import tariff preferences with the exception of 2 items: baby milk (requires license and is subject to 1% tariff) and pleasure boats imported by tourism companies (tariff reduced from 80% to 40%); (3) imposed new tariff rates on 120 commodities, with no change in minimum (5%) and maximum (80%) rates.	1993
P.D. No. 134/89	Included automobile spare parts and durable consumer goods, including their parts, to mandatory quality inspection list.	1989			
P.D. No. 304/89	(1) Reduced import tariffs to 50% of rates specified in the Customs Tariff for appliances, machinery, and equipment (except passenger cars) imported by hotels and tourist establishments; (2) reduced by 20% duties on completely knocked-down parts subject to the heading of finished products; (3) provided that the local processing proportion is a minimum of 20%, the duty rate on the complete finished products is reduced by 25% or more, with the maximum reduction of 75% on assembled goods with more than 65% local content; (4) reduced to 1% the tariff on equipment, machinery, materials, technical appliances, spare parts and transportation equipment (except passenger cars) imported by the Arab Petroleum Pipe Line Company for the execution and operation of its projects.	1989			
P.D. No. 305/89	Reduced tariffs by an average of 30%, with slightly less of a reduction in high-tariff categories	1989			

1/ Presidential Decree.
2/ Ministerial Decree of the Ministry of Finance.
3/ Exceptions to the maximum rates applied to alcoholic beverages which were taxed at rates ranging from 600 to 300 percent.
4/ Exceptionally high tariff rates continued to be applied to alcoholic beverages.
5/ Ministerial Decree of the Ministry of Economy.

1. Tariffs

(a) Historical Overview of Tariff Reforms

Customs tariffs have gained importance in Egypt as a policy instrument and have undergone four major changes since the last decade.[6] The first change took place in 1980 when the tariff structure was completely reformed to link protection to manufacturing stages of products. With few exceptions, raw materials were taxed at rates less than intermediate goods, which were in turn taxed at rates less than final products. The effect of this reform was to institutionalize tariff escalation, a situation that was aggravated by the use of multiple exchange rates for customs valuation.

A comprehensive reform occurred in 1986, and the resulting structure continues to serve as the foundation for current tariff policies. In that reform, tariffs were reduced by 50 percent across the board, tariff categories were consolidated from 43 to 12, and a duty range of 5 to 160 percent was established. While a 1 percent tariff rate was applied to necessary foodstuffs, cars continued to be imported according to special rules and at high tariff rates, and alcoholic beverages were taxed at rates between 600 and 3,000 percent. At the same time, all supplemental taxes on imports, which represented a surcharge of between 15 and 20 percent, were abolished (GATT, 1992a: 67). Those taxes included a tariff for local governments introduced in 1979, a customs statistical tax dating from 1969, an economic development duty, and a maritime consolidation duty.

Tariff rebates were also introduced as part of the 1986 reform to encourage local production of components for the domestic assembly industry. Tariff discounts were linked to the share of local input materials in finished products, which according to GATT (1992a: 67), often reached 75 percent of the total import duty. The overall positive effect created by the reduction in tariff rates was offset by the simultaneous devaluation of the exchange rate used in customs valuation by the amount of 48 percent against the US dollar. According to calculations by GATT (1992a: 67) and Kheir-El-Din and El-Dersh (1991: 12-13), a comparison between the 1980 and 1986 tariff structures reveals that although the estimated average rate of nominal protection fell from 48.1 percent to 47.5 percent, the weighted average nominal tariff rate on the US dollar value of imports increased from 34 percent to 65 percent. Future modifications to the tariff system and the development of new regulations in accordance with economic changes are delegated to the High Council for Tariffs, established under the Ministry of Finance as part of the 1986 reform.

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[6] All tariffs are ad valorem, with the exception of those applied to tobacco and tobacco products, which are calculated on the basis of product weight. Egypt does not apply seasonal tariffs, nor does it apply variable import levies.

In 1989, P.D. No. 305 mandated a third reform which decreased most tariff rates by 30 percent. The objective of this reform was to ensure that domestic prices would not increase as a result of the adoption of the free market exchange rate for customs valuation purposes.[7] Exceptions were tariffs that were reduced by 50 percent for appliances, machinery, and equipment (excluding passenger cars) imported by hotels and tourist establishments and a 20 percent reduction in duties on completely knocked-down parts included in finished products. Other exceptions included reductions for tariffs on products manufactured within specifications of local content requirements, and a reduction to 1 percent on equipment, machinery, materials, technical appliances, spare parts and transportation equipment imported by the Arab Petroleum Pipe Line Company for the execution and operation of its projects. The tariff rate on basic foodstuffs was also decreased to 0.7 percent.

A fourth reform of this tariff structure was introduced in 1991 by P.D. No. 178. It increased tariffs while simultaneously lifting NTBs on imports. The effect of this reform was to return the rate structure to its 1986 level. At that time, the range of tariffs was modified from 0.7 to 120 percent to 1 to 100 percent (GATT: 1992a: 68). The exceptions were a few luxury goods, passenger cars, and alcoholic beverages that continued to be taxed at high rates. However, tariff categories were further reduced from 12 to 10. A 10 percent sales tax was also introduced at that time to replace the consumption tax; that tax also applied to imports.

In 1992, as part of the World Bank and IMF SAL, the tariff range was further narrowed. Minimum rates were raised to 5 percent and maximum rates were lowered to 80 percent. New tariff rates were imposed on a total of 106 commodities, primarily through reductions in customs duties on raw materials and intermediate goods, and higher duties on finished goods. At the end of 1993, new tariff rates were imposed on 120 products, with no change in the minimum and maximum rates. The products that were subject to tariff increases included: food products (e.g., butter, eggs, margarine), chemicals and pharmaceutical (e.g., surgical sutures, disposable plastic syringes), printing and writing paper, construction materials (e.g., stones, friction materials, bricks), metal products (e.g., tubes and pipes, filing cabinets), and tractors, buses, and motorcycles. Passenger cars continue to be highly protected (for details on the car industry, see Box 7). Those products subject to tariff decreases included: frozen fruit, stamping foil, silk yarn, milking materials, tin for packing, stranded wire, horizontal pumps, and telephone switches.

Currently, tariffs are being maintained at high levels as part of the Government's strategy to protect industries from excessively rapid adjustments to free trade. They also provide an important source of revenue for the Government. A reduction in the

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[7] The move to the free market exchange rate represented a devaluation of the Egyptian pound. The rate was adjusted from LE 1.89 a US dollar to LE 2.57 a US dollar.

BOX 7
CUSTOMS DUTIES AND THE EGYPTIAN CAR INDUSTRY

Recent headlines in the *Egyptian Gazette* (January 14, 1994) proclaimed that high customs fees have intensified the country's automobile market slump. The 70 percent decline in sales affects all major players in the car industry: foreign producers seek to maintain their market share in Egypt while attempting to cut costs and increase quality; importers postpone new shipments of cars, hoping for decreases in customs fees that have soared to about 238 percent, while attempting to sell excess stock; and consumers weigh the options of buying a locally produced or imported car, whose decisions are based not only on price but also on financing options.

Tariff policy continues to focus on the protection of local industry, which consists of assembly only with the few exceptions of the manufacture of some parts such as the outer body, seats, and tires. Local industry leaders fear that if customs duties are decreased, large-scale foreign investments will be permitted, thereby displacing an Egyptian automobile industry that is unable to compete because of high production costs and a lack of commitment to quality standards. Car dealers, on the other hand, view decreases in customs duties as a boon to business in the long run, because it would mean lower prices as supply fills the market and the increased ability to buy more cars. In the short run, however, a cut in customs duties will badly affect dealers who have unable to liquidate stocks.

If the present level of customs tariff is maintained, consumers will likely lobby for the cancellation of the decree barring imports of cars that are more than one-year old, thereby allowing access to second-hand cars. Despite these conflicting interests, the Egyptian car industry will be subject to possible decreases in tariffs as a result of the GATT negotiations, as well as to the added pressure on the Government by the World Bank and IMF to decrease the maximum tariff level to 50 percent.

maximum tariff to 70 percent was postponed from December 1993 to February 1994. Thereafter, maximum tariff rates should be decreased gradually by 10 percent until the maximum rate declines to 50 by mid-1995. Rates below 30 percent will remain unaffected. Tariffs for imported intermediate goods that are significantly lower than those for final products represent a form of protectionism similar to that used by earlier import substitution policies. These so-called graduated tariffs can offer domestic producers learning-by-doing opportunities that would otherwise be unavailable to them under free trade. However, the time period required for industries to become efficient and internationally competitive often requires several decades. Consequently, the reduced dispersion among tariffs for intermediate and final goods tends to improve the efficient allocation of resources, encourage the production and export of those products in which the country is internationally competitive, and improve the welfare of consumers by lowering the cost of their purchased goods.

(b) *Tariff Classification*

Egypt's tariffs are based on the Customs Cooperative Council Nomenclature (GATT, 1992a: 68). Codes are classified according to four digits and are disaggregated further in a limited number of cases. The number of tariff lines used as of 1992, including each subdivision as a separate tariff line, totaled 1,790. Egypt is in the process of adopting the Harmonized Commodity Description and Coding System. The introduction of the new system is expected to simplify dealings with the customs authorities and coordinate trade transactions at an international level.

(c) *Tariff Preferences and Concessions*

Tariff preferences and concessions have also undergone reform measures since the late 1980s. In 1990 the preference list specified 96 items; it was reduced by 27 items in 1991, and by 32 items in 1992 (GATT, 1992b: 22). In 1993, P.D. No. 294 removed all import tariff preferences with the exception of two items: baby milk (which requires a license and is subject to 1 percent tariff) and pleasure boats imported by tourism companies, whose tariff was reduced from 80 to 40 percent. Other products subject to tariff preferences are equipment, machinery, materials, technical appliances, spare parts and transportation equipment (except passenger cars) imported by the Arab Petroleum Pipe Line Company for the execution and operation of its projects. The tariff on those products was reduced to 1 percent in 1989, as mandated by P.D. 304.

(d) *Reactions to New Tariff Policy by Public and Private Sectors*

Egypt's new tariff policies have met with negative responses from both the public and private sectors. Parliamentary discussions concerning customs tariffs reductions indicate that many ministries fear that tariff reductions will threaten domestic industries (*Al-Ahram*, November 21 and December 20, 1993). The Ministry of Industry also does not endorse the proposed tariff reductions in intermediate inputs (*Al-Ahram*, December 19, 1993).

The Egyptian Federation of Industries shares the same view on tariff reductions as most government ministries. It considers that the proposed modifications to the rate structure will expose domestic industrial production to unfair competition. Businessmen argue that because certain industries (e.g., textile and ready-made garment industries) suffer from accumulated stocks, the Government should provide protection against dumping and unfair competition. The Federation has suggested that the reductions proposed by the Ministry of Finance should be comprehensive and apply to all imports, especially those used as inputs by Egyptian enterprises. However, the Federation has argued that the proposed tariff modification will not benefit raw material imports and intermediate products, because their current tariff levels are below 30 percent. The Federation is therefore of the opinion that the Ministry of Finance is penalizing domestic industrial enterprises in order to safeguard public revenues from possible decreases in tariff rates (*Al-Ahram*, January 4 and 9, 1994).

2. Prohibited Imports

A list of prohibited imports was instituted in 1986 as a replacement for the import licensing system. Ministerial Decree (M.D.) 333/1986 specified about 210 tariff lines to be included in the ban list; more items were added in the following two years. In early 1990 about 570 products were affected by the list (GATT, 1992a: 76). As a condition of the World Bank SAL, the coverage of domestic production was reduced to 23 percent in 1991, down from 37 percent one year earlier (see Box 8). The reductions, however, were much larger for the private sector than for the public sector, which dominated the textile industry and was protected from foreign competition through that policy measure. As a consequence, the public sector production coverage of import bans remained above 40 percent, whereas that of the private sector was reduced to 10 percent. More recently, in line with the Government's trade policy reforms agreed upon with USAID, the production coverage of import bans have been lowered to under 5 percent, without significant differences between the public and private sector coverage. While the most recent reduction is indeed significant, the remaining 2 product groups on the import ban list represent 26 items: poultry was broken down into 3 sub-items (e.g., poultry, poultry offal, and poultry liver), and textiles and ready-made garments were disaggregated into 23 sub-items according to their customs nomenclature (e.g., types of woven fabrics, blankets, clothing accessories). Indeed, protection of the textile industry, which is dominated by public enterprises, remains very high.

BOX 8
PRODUCTION COVERAGE OF IMPORT BANS, 1990-93
(Percent of domestic production)

	1990 (March)	1991 (June)	1993 (July)
Public Sector	49.2	41.2	7.2
Private Sector	29.3	10.3	2.7
Total	37.2	22.7	4.8

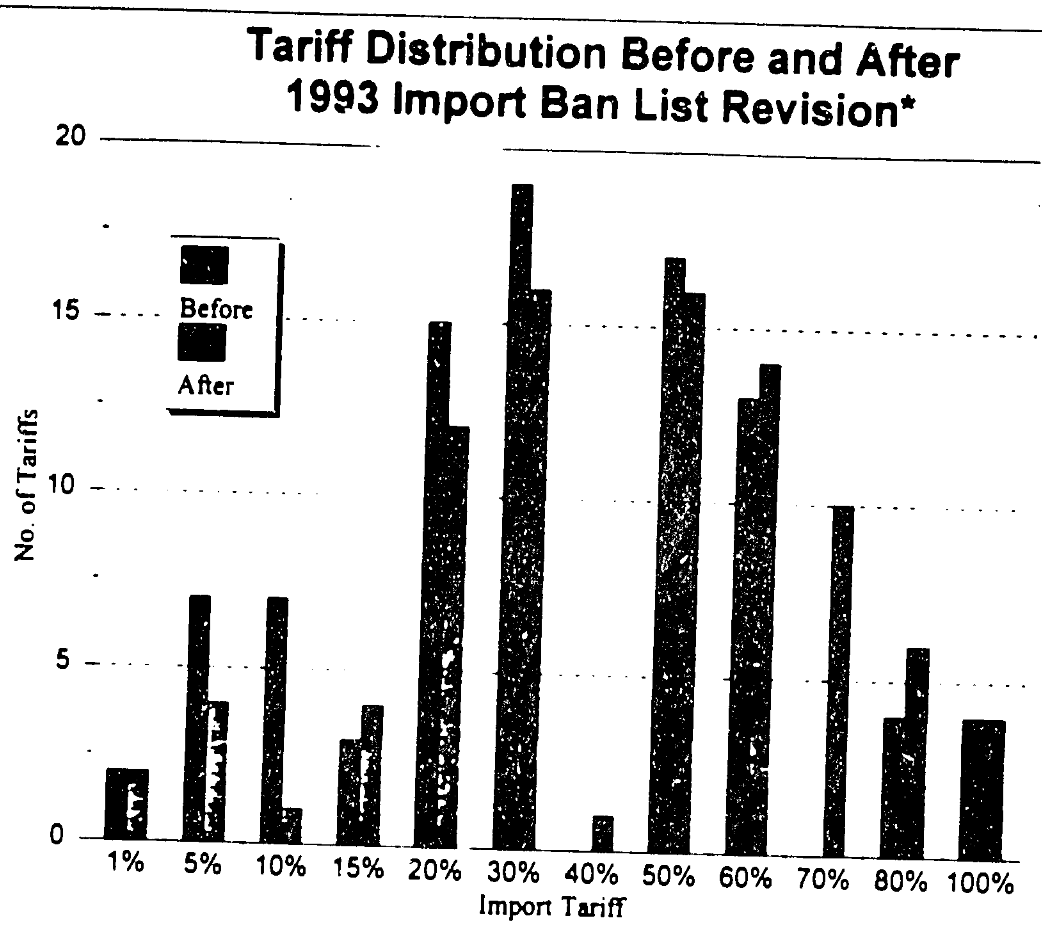
Source: World Bank (1991a) and USAID (1993).

The normally-shaped distribution of the tariffs on those products removed from the ban list remained relatively unchanged as a result of the 1993 ban list revision (see Figure 3). However, the number of items included in two categories changed somewhat. In the 10 percent category, the number of items decreased from 7 to 1; in contrast, the number of items taxed at 70 percent increased dramatically from 0 to 10. Other tariff categories, such as the 1, 15, 50, 60 and 80 percent categories and the tariff bands, such as 5-60 percent and 20-160 percent, remained relatively unchanged or showed a slight increase in the number of items taxed at particular rates. Just as the overall distribution of tariff categories remained nearly unchanged after the removal of items from the ban list, little change occurred in tariffs for individual items. The only decrease occurred in linseed oil (from 20 to 15 percent). However, tariffs on seven items soared from 30 to 70 percent (e.g., steel pipes, filing cabinets, electric accumulators, electric water heaters, electric filament lamps, electric cables, and plastic syringes). While the reduction in the number of products included on the import ban list indicates that this import measure is no longer a significant NTB to trade, it is noteworthy to recall that the three remaining items on the list represent 26 related products. Moreover, the increase in tariffs of certain items indicates that high protection continues to apply to particular products, and the remaining products which were removed from the ban list may now be protected by some other forms of trade control measures.

3. Imports Subject to Special Conditions

The "special conditions list" containing products whose importation was only permitted under certain circumstances was cancelled by M.D No. 288/93 in July 1993. Eight of those products were for civilian use (as opposed to military use) and could not

FIGURE 3



*Coverage limited to those commodities included on the ban list before 1993 reform.

be imported if they were produced by military factories. They included engines up to 125hp, certain types of electric motors, radiators, and generators up to 700 Kva. The ninth product was fuel and its derivatives; it could only be imported through the Egyptian Petroleum Corporation (USAID, 1993a). The cancellation of this list therefore indicates that those products removed from the import ban list were not transferred to the "special conditions" list.

4. Quality Control and Standards

A comparison of the list of products included in the quality control list before and after the 1993 import ban revision indicates that quality control is increasingly being used as an important NTB to trade. USAID (1993b) points out that 34 items were removed from the import ban list and included in the quality control inspection list, which contained 159 products in August 1993. Government officials in the Customs Administration nevertheless reported that the application of the International Standardized Specifications (ISS) system to imported products is a standard procedure in all parts of the world, and is not being used in Egypt as a substitute for the import ban list. While valid reasons may exist for requirements pertaining to foodstuffs, it has been argued that quality control on automotive parts has been introduced not for consumer protection purposes, but to limit imports through "red tape" processes (Kheir-El-Din and El-Dersch, 1991, as quoted in GATT: 1992a, 83).

5. Anti-dumping Measures and Countervailing Duties

GATT rules stipulate that countries can impose anti-dumping measures and countervailing duties to protect their industries from injury resulting from the dumping of goods by foreign suppliers or from the effects of trade-distorting subsidies. Dumping occurs when a foreign supplier sells products to a country at below-cost prices in order to gain market shares. Anti-dumping measures and countervailing duties usually take the form of import quotas, an import price reference system, or specific and variable duties with high ad valorem tariff equivalent rates.

It is important to recognize the underlying motives for the adoption of anti-dumping measures: they can stem from a country's concerns about fair competition from abroad or its desire to provide transitory protection to vulnerable industries. The IMF (1992: 16) has suggested that the recent pattern and volume of anti-dumping and countervailing actions support the view that these measures respond to pressures for protection by import-competing firms. Indeed, many Egyptian businessmen, especially those working in the textile industry and those involved in the manufacture of machinery products support the implementation of an effective anti-dumping policy in anticipation of trade liberalization (*Al-Ahram*, November 21, December 17, 20 and 31, 1993 and January 1, 1994). The IMF has also pointed out that textile and clothing, motor vehicles, steel and leather products are among the sectors that are the most affected by anti-dumping and countervailing measures and that these same sectors are usually protected by other trade control measures.

In Egypt the introduction of import quotas is being considered as a means to protect national industries, in addition to anti-dumping measures and countervailing duty actions. Studies to gauge the effectiveness of that measure are currently underway in the Ministry of Industry, and focus on the application of an import quota system to industrial products. According to the Minister of Industry, such a system would be applied in cases where the supply of domestically-produced goods was insufficient to meet internal demand. Such goods would only be permitted to enter Egypt at world market prices and would be subject to high quality control measures.

Other countries that have undergone structural adjustment have dealt with the issue of dumping in a variety of ways. Mexico imposed specific and variable duties with high ad valorem equivalents. That country, along with Morocco, the Ivory Coast, and Jamaica, reintroduced the import price reference system, which in addition to curbing the practice of under-invoicing, was also used to reduce external competition and provide protection (World Bank, 1991b: 68; for other experiences, see World Bank, 1988). While Egypt is exploring anti-dumping legislation and specific measures to protect its market from unfair competition, it should be recalled a natural tendency exists for foreign suppliers to increase exports to a market whose barriers are being reduced as a part of liberalization efforts, and for importing countries to increase their use of anti-dumping and countervailing measures.

B. EXPORT MEASURES

Egypt's initial trade policy reforms have focused less on export policy changes than on import policy changes. This approach differs from the experiences of countries such as Mexico, Pakistan, Turkey, Ghana, and Jamaica, which strengthened their export sectors before introducing import reforms (World Bank, 1992). However, the time lag between export and import reforms in those countries was short since import liberalization was essential in reducing the anti-export bias. The initial emphasis of their export reform programs was the reduction in adjustment costs, such as lost output and unemployment in inefficient import-substituting industries, since export expansion facilitated the employment of those released resources.

Egypt has dismantled restrictive practices that act as entry barriers, including export licenses, minimum prices, export quotas and bans. Perhaps the most important change to take place recently has been the replacement of the letter of guarantee required by exporters who benefit from the temporary admission system with an insurance policy, and the immediate reimbursement of customs duties and sales taxes levied under the drawback system. A Presidential decree is expected to be issued shortly that will be especially important for the textile and ready-made garment industries, both of which rely heavily on imported inputs. While the first stage of export policy reforms has been implemented fairly rapidly, the next stage must aim to improve the administration of policies, strengthen institutions, and reinforce the mechanisms for implementing policies and evaluating reforms.

1. Duty Drawback System

The duty drawback system is used by exporters to request refunds of duties paid on inputs used in the production of a final product that is exported, provided that the export of the finished product occurs within one year of the importation of the raw materials. If imported raw materials are not completely exported in the form of finished goods, the exporter is only entitled to rebates for the customs duties and taxes paid on those raw materials used in the exported goods. The drawback system also applies to indirect exporters, who are often included when the importer and exporter are different entities. In these instances, a decision is made between the two parties as to which one receives the rebate.

While the potential problem of deciding which party receives the rebate in cases of indirect exportation may appear to be problematic, the rules used by the Industrial Control Authority (ICA) to calculate the amount of imports used in drawback system are more troublesome to businesses. The ICA calculates the amount of the rebate provided to the exporter by two different methods: (1) for certain industries (i.e., paper, cigarette packaging, and standard furniture) direct reimbursement is made of an amount that is based on input/output tables prepared by the ICA; or (2) for other industries, the ICA reviews the production process in each plant and determines the quantities of imported raw materials required; a certificate is then issued that is valid for one year indicating the approved production formula. Several businessmen have complained that they have difficulty in proving the amount of the imported input used in the final product, and that the ICA needs to make the system more transparent.

The intent of duty drawback system is to compensate exporters for the high cost of imported inputs. However, in countries undergoing structural adjustments, this type of system can inhibit the shift towards a uniform tariff level and conflict with import liberalization when the rebate system is perceived as a long-term alternative to import policy reforms (World Bank, 1991b: 51). Such a system can also encourage exporters to over-invoice imported inputs. The system also requires that exporters carry the total cost of duties and sales tax until final goods are exported and rebates are received. However, in a public announcement made at the end of January 1994, the Minister of Finance stated that reimbursement for all customs duties and sales taxes will be reimbursed immediately upon the re-export of imported inputs (*Al-Ahram*, January 25, 1994).

2. Temporary Admission System

The temporary admission policy has the same goal as the duty drawback system, i.e., to stimulate exports by providing tax relief of imported inputs used in the production of final products. It is superior to the drawback system since exporters are not required to pay duties and sales tax on regularly imported materials, and they are permitted to import banned products, provided that the final product is exported within one year. Like the drawback system, the temporary admission system can be used when indirect exporters are involved.

To take advantage of this system, exporters are required to declare their desire to use the temporary admission system as soon as they receive their shipments. A letter of guarantee takes the place of duty, and sales tax payment whose fee of two percent of the value of the letter must be paid every three months; an interest free cash deposit amounting to between 15 and 100 percent of the value of the letter of guarantee (depending on the relationship between the exporter and the bank) is also required. At the end of January 1994, an announcement was made declaring that the cash and banking letter guarantees are to be replaced by insurance policies issued by the Customs Department and the Tax Department (as beneficiaries), or by an affidavit claiming the assets of the firm as an outstanding guarantee (*Al-Ahram*, January 25, 1994). This new policy should alleviate the substantial financial burden previously borne by the exporters.

3. Export Taxes

Export taxes do not appear to be a major source of revenue for the Egyptian Government, as they are in many primary commodity exporting countries, such as Ghana and the Ivory Coast (World Bank, 1991b: 48). Charges are levied on goods that are subject to quality inspection at rates established by the Minister of Economy and Foreign Trade (GATT, 1992a: 90). Those commodities subject to quality control include citrus fruits, juices, vegetables (canned, fresh or frozen), syrups, flax fibers and tow, eggs, biscuits, roasted ground nuts and honey.

4. Export Restrictions and Quotas

In 1991 the number of items on the export ban list was reduced from 20 to 6 (GATT, 1992a: 91). Important modifications included the lifting of restrictions on foodstuffs and fodder, which had originally been used to prevent smuggling of subsidized foodstuffs, including subsidized imports, out of Egypt. In 1993 only two items were included on the export bans list: raw hides and skins, and scrap of iron, steel, copper, and aluminum. M.D. 288/93 also eliminated the only remaining item on the list of export quotas, viz., tanned hides and skins (USAID, 1993a).

5. Local Content Requirement

Egyptian assembly industries are assisted through a scheme offering reductions in customs duties on imported inputs (GATT, 1992a: 86). The reductions are linked to the proportion of locally manufactured parts in the finished products. In 1993, P.D. No. 294 raised the minimum local content requirement from 40 to 60 percent (with the exemption of the higher limits set by the Minister of Industry) as the basis of tariff calculation, thereby encouraging greater local production of inputs.

6. Free Trade Zones

In 1992 six public free trade zones were in operation in Egypt (GATT: 1992a, 89): Nasa City, Alexandria, Port Said, Suez, Ismailia, and Damietta. According to recent press releases (*Al-Akhbar*, January 1, 1994), there are plans to establish two to three more free trade zones in the near future near Sinai coastal cities. Goods imported into free zones that are used for export are not subject to customs duties; however, goods that enter or leave free trade zones are subject to a one percent duty.

C. GATT 1994 EFFECTS

With its April 1994 signing, the GATT world trade agreement comes into force for the industrial country signatories. For developing countries, enforcement will begin in January 1995. Egypt remains in the United Nations category of least-developed countries. As such, under the GATT agreement it is only required to undertake commitments and concessions to the extent that they are consistent with the development, financial and trade needs of the country (GATT, 1993). Egypt and other GATT members in this category are given the additional time of one year from the Special Ministerial Session concluding the Uruguay Round to submit their schedules of concessions and commitments annexed to the GATT agreement, as required by Article XI of the Agreement Establishing the Multilateral Trade Organization. Those countries are also to receive from the GATT technical assistance in the development, strengthening and diversification of their production and export bases, and trade promotion activities.

Since December 15, 1993 when the Final Act embodying all the results of the Uruguay Round of Multilateral Trade Negotiations was concluded (for details, see GATT, 1993), there have been numerous calls from both the private and public sectors to study the effects of the GATT agreement on the Egyptian economy. Recent examples include the planned review of the effects of the GATT agreement on producers, exporters and investors by the General Egyptian Federation for Chambers of Commerce (reported in *The Egyptian Gazette*, January 24, 1994), and the study on the effects of the GATT agreement on the transport sector by the Ministry of Transport (reported in *The Egyptian Gazette*, January 26, 1994). According to the Egyptian Federation for Chambers of Commerce (reported in the *Al-Ahram*, January 20, 1994), businessmen are fearful of the increased foreign competition resulting from the GATT agreement.

The impact of the world trade agreement on the Egyptian economy is reported to have been studied since 1988 by a specialized committee established under the Ministry of Economy. The committee is expected to provide an evaluation of the final outcome of the Uruguay Round before the GATT member countries sign the final agreement in April 1994. While specific results of studies are not yet available, recent press clippings suggest that, in general, most government agencies are in favor of the GATT agreement. In a recent public announcement (*The Egyptian Gazette*, January 28, 1994), the Minister of Economy and Foreign Trade announced that the Government is prepared to expand efforts to help Egypt adjust to the new world trade agreement.

VI. CUSTOMS REGULATIONS

A. OVERVIEW

The administrative process of complying with customs regulations and the resulting bureaucratic "red tape" is considered by many Egyptian export and import businesses to be an important impediment to international trade in terms of time, cost, and productivity. While important reforms have been implemented since 1986 that reflect the Government's move to a more open trade policy, important issues remain that give rise to a lack of transparency in trade-related activities. These problems are also apparent in the area of foreign direct investment, where despite large promotional efforts made by the Government, bureaucracy remains a significant obstacle to growth.

Egypt is not alone in confronting these problems. Private sector assessments recently undertaken in Nicaragua (Boye, 1992), Cape Verde (Boye et al., 1993), and Colombia (Boye, 1993a, 1993b, 1994; Lord, 1993) indicate that while macroeconomic policy uncertainties are of great concern to enterprises, import and export regulations and procedures remain as important obstacles to trade. In Colombia, for example, importers must personally deal with more than 10 different public and private sector entities in order to process required paperwork. In Nicaragua, a "one-stop shop" was implemented to streamline customs procedures to curtail duplication and redundant procedures.

The findings on customs regulations and procedures reported in this section are drawn from information gathered through a series of interviews conducted with private sector importers and exporters. These findings address inconsistencies in the application of customs regulations, under-invoicing, unresolved issues of customs values and insured values, warranties, the "Egyptian selling price", quality control, and re-exporting.

B. IMPEDIMENTS TO TRADE

1. Inconsistency in the Application of Customs Regulations

Inconsistency in the application of customs regulations is common throughout Egypt. For example, procedures are often strict in the application of duty rates, and flexible in the determination of a particular duty category for a certain product. This problem is in part due to the lack of knowledge on the part of customs officials of frequent new laws. Often, customs officials are not well trained and have a negative attitude towards businessmen, especially importers. This issue has also surfaced because little or no justification is required on the part of customs authorities for their actions and a formal appeal process does not exist.

The application of wide ranging duties is also linked to a quarterly salary bonus received by officials that is based on the share of customs fines and penalties imposed during the previous quarter. Importers should find some respite from this problem once the Harmonized Code System is adopted throughout Egypt this year. The new system will help identify the actual costs of imported goods and establish international standards. The implementation of the new system will likely take six months before it is fully operational. Further reductions of import duties, improved training of customs officials, and better communication between policy makers and officials who administer the policies would further improve the situation.

2. Under-invoicing

Under-invoicing appears to be widespread as a strategy employed by importers to avoid payment of tax. Imports often undervalue merchandise to have a comparative advantage over the domestic producer. For example, suppose that a product is produced locally for $300 a unit and it can be imported for $200 a unit. If a 50 percent tariff is applied, then the product costs the same to import as it does to produce internally. If the importer undervalues the product to $100 a unit, then the tariff would be reduced to $50 ($100 x .5), thus lowering the total cost of the imported item to $250.

Customs authorities have developed elaborate procedures to counter this practice, including the establishment of "dummy" corporations, which they use to elicit information on prices from foreign firms. These prices, in turn, are compared with those reported on commercial import invoices to determine the true value of merchandise. Fines for under-invoicing range from 5 to 100 percent of invoice value. The planned reduction in tariff rates and the introduction of the Harmonized System should curb this practice.

3. Customs Value versus Insured Value

The difference between customs value and insured value often causes problems for enterprises importing shipments containing samples or items having no commercial value. Despite the appearance of two distinct values on import documentation, customs officials find them contradictory and use the insured value, rather than the customs value, to determine import duties. While this problem is not directly linked to trade policy, it is important because it increases the costs of importing. It appears that the problem could be alleviated by training customs officials to distinguish between the two values, and to apply the duty accordingly.

4. "Egyptian Selling Price"

Closely tied to the issue of under-invoicing is that of the "Egyptian selling price" used in customs duty evaluation. Customs officials establish a price for every product the first time it enters Egypt, thereby establishing a minimum floor price for that particular item, referred to as the "Egyptian selling price". All future imports are valued at least as much as that first shipment, with slight allowances permitted in cases where manufacturing source countries vary widely (e.g., India versus Germany). The reference price system used by the Customs Administration, administered by the Pricing Office headquartered in the port at Alexandria, is based on computer records of all invoices received by each importer and actual price lists of foreign-made products submitted by foreign companies or requested by officials.

Complications in the Egyptian selling price phenomenon occur in four separate cases. All cases affect suppliers who are new to the Egyptian market, or who are trying to offer products at reduced prices in order to gain market share. They also affect importers, who must constantly justify differences in product specifications, quality, or production costs. The first case relates to the valuation of a product that is first imported into Egypt from a high-cost producer such as Germany, and later imported from a low-cost producer such as India. Even though documentation may justify the different costs, the importer may be accused of under-invoicing and fined accordingly.

The second case occurs with the reference price system when subsequent shipments of a product are manufactured more efficiently due to changes in technology and accordingly priced below that of the original shipment. Customs officials often assume that they have access to all possible prices for products, and therefore believe that the lower price is false. Accordingly, officials adjust the customs value of the product upward by between 10 and 30 percent.

A third case arises if customs officials do not have information on bulk purchase prices. When confronted with bulk-priced goods, customs officials often accuse importers of under-invoicing. This case often occurs when small shipments of products are imported on a trial basis, and large quantities of the same product are shipped at a later date. The situation may be resolved through prolonged negotiations between the importer and customs officials, but it nevertheless represents a cost to the importer.

Lastly, customs officials often accuse importers of dumping in cases where a seller prices his products low to break into the market or to increase market share, or when in an effort to liquidate stocks, traders sell products at prices below the manufacturers' list prices. While the new anti-dumping law presently being formulated by the Government aims to curb this problem, it will likely justify further delay in customs of shipments that are believed by officials to be under-priced.

5. Warranties

The policy on warranties is costly and time-consuming for importers and other persons when products or their components are shipped out of Egypt for repair or replacement. Customs officials require the following : (a) that for foreign-made products, cash be posted or a bank guarantee be processed equal to the value of the product while it is out of the country; (b) that a customs duty be paid on the value of the repair; and (c) that full duty be paid on the item if it is replaced with a new or different one having a distinct serial number.

Several problems arise from these requirements: cash is tied up until the product returns to the country, additional duty is paid on the "added value" incurred by a repair, and duty is paid twice - once on the original product and again on the repair or replacement. Customs officials justify this policy by claiming insufficient resources to monitor warranted items; they also consider that the occasional double imposition of duties on replacement items is a business risk. Egyptian importers often use a commission agent or distributor of the foreign firm to absorb the added costs; others identify products as Egyptian made to cut costs and shipment delays, even though they must still pay import duties on the return receipt of the product in Egypt.

6. Quality Control

Quality control regulations present significant difficulties to Egyptian businessmen. In order to comply with inspection regulations, importers must provide samples of the shipment to be imported to the General Organization for Export and Import Control. Each shipment must be tested and fees paid for those shipments, regardless of whether or not previous cases exist where the same foreign supplier was used, or whether the same company imported from the same foreign supplier at an earlier date. For manufactures, inspections of samples often take one week or more, which causes delays in processing the entire shipment through customs. Further delays are incurred when testing equipment is unavailable, which causes customs authorities to send the samples to a private company who has the equipment necessary to test the samples, but may be a local competitor of the importer. Since the competitor has an interest in rejecting the samples, his tests may be biased against the importer, thereby increasing the risk of rejection that the importer faces. If the importer fails to pass the test, he has to re-export the shipment to return the goods to the shipper.

Failures in quality control inspection tests also occur in products where quality is not an issue. For example, importers often lack knowledge about specifications of foreign-made products, and attempt to import them as inputs for locally-produced products. The product is rejected when inspection tests uncover that it is incompatible with the final product. An example is the recent attempt by a business person to import brake pads for cars from a British manufacturer. The brake pads were rejected because their specifications did not fit those of an Egyptian-made car. The failure of inspection tests also represents an additional burden on the importer since customs authorities pay special attention to importers who have failed earlier tests.

Another problem with the inspection system is that imported merchandise is often not well defined in terms of specification, and the current list of products subject to inspection is too broad. For example, "clothes" can refer to a ready-made garment or an input to the final product (e.g., buttons or lining). A fee also accompanies the inspection process, which is considered by many importers to be excessively high. It appears that such fees are based on the total consignment, rather than the size of the sample. According to one businessman interviewed, the authorities raised 15 million Egyptian pounds from collecting inspection fees during a six-month period in 1993.

While the issues discussed do not purport to be comprehensive in nature, they are believed to represent views held by many business owners currently active in international trade and they need to be addressed. It is therefore recommended that a survey be undertaken to provide a step-by-step description of the processes that importers and exporters must follow in order to realize trade transactions, including possible problems associated with each of those steps. The resulting quantification and ranking of those problems would allow bottlenecks to be pinpointed and reform priorities to be established.

VII. MACROECONOMIC LINKAGES

A. INTRODUCTION

In a traditional macroeconomic framework, a country's internal balance is reflected by low rates of inflation, and external balance is reflected by stable foreign exchnge reserves[8]. The relatively high rate of inflation prevailing up to recently in Egypt pointed to the need to reduce the fiscal deficit, and thereby decrease aggregate demand. Thus the stabilization target is readily met through appropriate use of the fiscal policy instrument. In contrast, the recent dramatic increase in Egypt's foreign exchange reserves suggests that external balance has yet to be achieved.

In stabilization programs, the experience of other countries in reducing budget deficits has been to increase revenues relative to expenditure reductions (World Bank, 1991a). Tax revenue increase have therefore formed an integral part of fiscal adjustments. Trade liberalization policies that reduce import duties can accordingly be incompatible with fiscal revenue requirements when trade policy reforms form part of broader economic reforms and structural adjustment programs (see Hwa, Kongsamut, and Zizek, 1990; and Khadr and Schmidt-Hebbel, 1989). Fiscal revenue increases can, nevertheless, originate from non-tax sources such as privatization, but for the most part the experiences of other countries suggests a need to develop parallel tax revenue sources in Egypt.

B. FISCAL REVENUE REQUIREMENTS AND INDIRECT TAX REFORMS

Egypt's large government structure places a heavy burden on public sector financing. In 1992/93 total Central Government tax revenue was 27 billion Egyptian pounds (see Annex B; Table 8). Together direct and indirect taxes represented over 22 percent of GDP. To maintain this revenue source, the Government has traditionally

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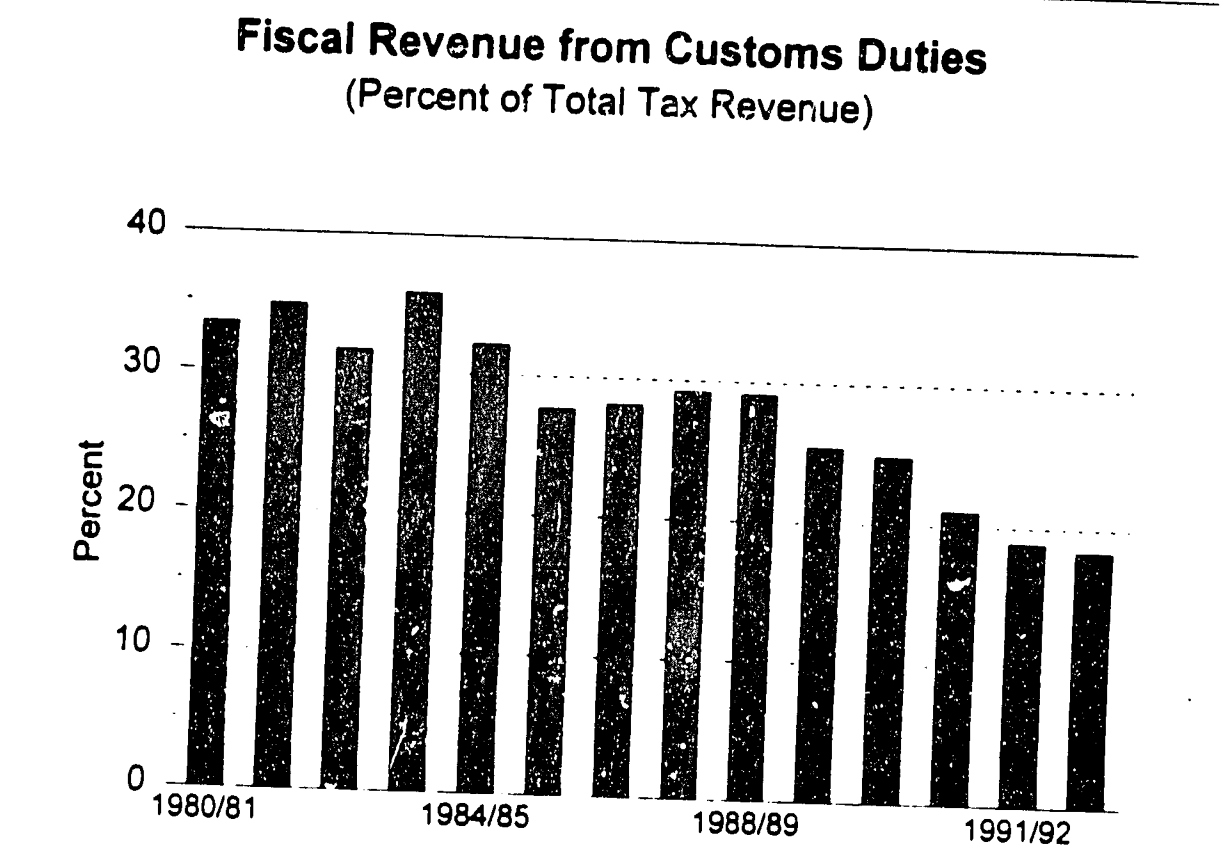
[8]The World Bank's (1991b) review of trade policy reform experiences used these internal and external targets. Fiscal policy is the instrument used to obtain stable foreign exchange reserves. In the original Mundell Model (Mundell, 1962), internal balance was reflected in high output or low unemployment, and external balance was reflected in the balance of payments. A detailed analytical framework is presented in Sachs and Larrain (1993).

FIGURE 4


Fiscal Revenue from Customs Duties
(Percent of Total Tax Revenue)
Percent
40
30
20
10
0
1980/81
1984/85
1988/89
1991/92

relied on import duties, although in recent years that reliance has decreased (see Figure 4). In 1992/93 customs duties reached 5 billion Egyptian pounds, which represented 18 percent of the total tax revenue. In 1989/90 that share was 25 percent, and in 1990/91 it was reduced to 21 percent. Based on data contained in a report on tax policy in Egypt by the consulting firm of Peat Marwick, the 1992/93 share of customs duties in total tax revenue compares with a trend-fitted average of 15.5 percent in a sample of 66 developing countries[9]. Thus the recent reductions in the ratio of customs duty collections to total tax revenue compares favorably with other countries.

The Unified Tax Law of December 1993 is currently being implemented, and will apply to calendar year 1994 incomes. The tax brackets on export revenue are as follows: (1) earnings on the first L.E. 8,000 are taxed in the same way as other revenue sources; (2) above L.E. 8,000 the tax applies to 80 percent of the earnings to encourage export and industrial activities. The General Branch of Exporters in the Egyptian General Federation of the Chambers of Commerce anticipates that there will be exemptions given during a phase-in period (*Al-Ahram*, December 26, 1993). The system does not provide for export tax incentives (*Al-Ahram*, December 15, 1993).

C. THE EXCHANGE RATE

The exchange rate was unified in October 1991 as part of the reform program for the second standby agreement with the IMF. Prior to the unification, a multiple exchange rate system existed. The official Central Bank exchange rate applied to export earnings from petroleum, cotton, rice, Suez Canal transit fees, and royalties from the Sumed pipeline; these proceeds were used to import essential raw materials and foodstuffs. Between 1979 and August 1989, the Central Bank rate was fixed at LE 0.7 a US dollar. It was adjusted to LE 1.1 a dollar in August 1989, and then to LE 2 a US dollar in July 1990. There was also a transitory exchange rate between the Central Bank's official rate and that of the commercial banks. The parallel foreign exchange market through the commercial banks applied to the banks' foreign exchange receipts from workers' remittances, tourism, and other export earnings. There was also a black market rate.

In October 1991 a free market for foreign exchange was established as part of the ERSAP.[10] It abandoned the multiple exchange rate system and implemented a

[9]A trend-fitted estimate was used to calculate the average reliance on import duties for tax revenue in the sample of 66 developing countries. This procedure avoids biased estimates in mean average calculations when the sample contains outliers.

[10]The exchange rate was liberalized under M.D. No. 117/1991, based on Law No. 97/1976 of foreign exchange transactions.

unified exchange rate. Since December 1991 the rise in the general price index of non-tradeable, concurrent with the nearly unchanged nominal exchange rate, has resulted in an appreciation of the nominal exchange rate by around 20 percent. Unofficial estimates of the real exchange rate suggest that it has appreciated by about 33 percent. The liberalization of the exchange rate in 1991 was expected to cause a major depreciation in the Egyptian pound. However, the pound to dollar exchange rate has stabilized around LE 3.3 a dollar (see Annex B: Table 7). The Central Bank has aimed to stabilize the exchange rate and to promote net capital inflows. To maintain its stability the Central Bank has intervened in the market to purchase foreign exchange. The resulting stability, combined with interest rate differentials between foreign and domestic interest rates, has stimulated large capital inflows.

Exchange rate adjustments have been discussed by the Government and the IMF in light of the appreciation that has taken place since 1991. However, since this appreciation followed a major devaluation when the exchange rate was unified, it remains unclear whether or not the Egyptian pound id misaligned, and whether the current exchange rate is reducing the international competitiveness of Egypt's non-oil exports. Indeed, the decline in labor costs that has accompanied the fall in real wages suggests that the exchange rate needs to be measured in term of the domestic resource costs of production.

These considerations suggest that the international competitiveness of Egypt's non-traditional exports should be considered in the context of whether or not the real exchange rate is near an equilibrium level. Computation of the real exchange rate should be based on unit labor costs and adjusted for productivity changes, since the resulting normalized unit labor cost index directly measures Egypt's competitiveness relative to its competitors in foreign markets (for details, see Edwards, 1988). Were these data to be unavailable, then the real exchange rate index would need to be constructed using components of the consumer and wholesale price indexes to build the proxies for tradeable and non-tradeable prices, or more simply as the ratio of the trading partners' wholesale price index (trade-weighted) relative to Egypt's consumer or wholesale price index. The determination of the equilibrium real exchange rate would also need to consider other relevant variables such as tariffs, international prices, and capital and aid flows that result in the simultaneous attainment of internal and external equilibrium both in current and future periods.

VIII. CONCLUSIONS AND RECOMMENDATIONS

A. SUMMARY OF FINDINGS

This study has sought to determine the key trade policy and customs regulation issues that remain to be addressed as part of the Egyptian Government's comprehensive reform program. Based on these findings, it has also sought to assess the need for technical assistance support to carry out those reforms. To ensure internal consistency in Egypt's trade policy and customs reforms, it considered these issues in terms of their design and sequencing of institutional capabilities, trade policies, customs regulations and procedures, and macroeconomic policies.

To date Egypt's trade liberalization and exchange rate unification have needed a relatively small institutional response on the part of the government bureaucracy. In the last three years, the Government of Egypt has eliminated many of the NTBs to trade and adopted tariffs, albeit with a high degree of escalation. Thus, Egypt has undertaken the first step, involving the conversion of quotas to tariffs, in the normal sequence of trade policy reforms. The subsequent steps involve, first, the equalization of tariffs, without necessarily reducing revenues; and, second, the reduction of tariffs. Initiatives in these next stages encompass a series of activities that necessitate a large Government commitment to the reform process, and strong technical assistance support on the part of donor organizations.

Because large tariff dispersions protect domestic producers of finished goods from foreign competition, the current tariff structure is strongly supported by some private sector interests. Since the Government encourages private sector organizations such as the Egyptian Businessmen's Association to collaborate in the formulation of trade policy reforms as a means of gaining their support, the lobbying interests of these groups pose a major obstacle to increased domestic competition and the development of internationally competitive industries. Nevertheless, the emergence of export-oriented private sector producers, some of which form part of the Federation of Egyptian Industries, suggests that the growing influence of the private sector on the Government's decision-making process can lead to reduced tariff dispersions and eventually to lower overall tariff levels.

Having implemented legislation to reduce NTBs to trade and lower tariffs, the Government of Egypt is now embarking on the more difficult trade policy reform tasks associated with fundamental structural reforms through trade and investment initiatives and regulatory reforms that will impact on the real sectors of the economy. In trade-related matters, these encompass reductions in trade control measures, including customs procedures and regulations that act as trade barriers, and the implementation of export promotion measures to establish a strong institutional and administrative base for an outward-oriented economy.

The Egyptian Government's organizational capacity to undertake trade policy and customs reforms remains unevenly distributed among ministries. As a result, the decision-making process is fragmented within a large and complex government bureaucracy, notwithstanding the efforts of the Economic Group of Ministers to coordinate policies. The next stages of the reform process will need to be accompanied by a dismantling or redirecting of inefficient institutions, and creating new institutions that will encourage competitiveness and an outward orientation of producers. To successfully undertake these institutional reforms and bring about substantive changes, the Government will need to have a high political commitment to the reform process. Yet this commitment remains questionable, despite the Government's enunciated pledge towards reform. If the Government's political commitment were indeed to be low, then with an inadequate organizational capacity, the prospects for reform in Egypt would be extremely limited. In contrast, a strong political commitment would allow appropriate reforms to take place, and concurrent technical assistance support by donor agencies would likely to yield successful results.

Although trade policies are formulated through a complex system, and notwithstanding the aforementioned need for explicit institutional changes, the reform process will itself reduce the fragmented administrative and regulatory framework under which government policies are implemented. Initially the stabilization program led to internal inconsistencies with trade liberalization initiatives as tax revenue needs expanded in response to sharp reductions in deficit financing. Trade tax revenues have, nonetheless, decreased relative to the overall tax base as direct and indirect taxes have been introduced. This trend is expected to be sustained as the Government continues to overhaul the tax system, and as the value added tax is introduced later this year. Similar conflicting objectives between the Ministry of Industry, the Ministry of Agriculture, and the Ministry of Economy and Foreign Trade will need to be resolved either through explicit institutional intervention or through the evolution of government institutions involved in the reform process.

The link between macroeconomic policy and the development of an outward-oriented economy remains an unresolved issue. The appreciation of the Egyptian pound has provided producers with lower cost raw materials and capital goods from abroad. It has also increased the cost of Egypt's exports in foreign markets. While sufficient information is unavailable to determine whether the appreciation of the real exchange rate since 1991 has significantly impacted on the international competitiveness of Egyptian exporters, available data indicate that real wages have declined, and this trend may have impacted on the production cost of traded goods. Further study of this issue is needed before policy recommendations can be made.

Throughout this report it has been emphasized that trade policy and customs reforms need to be considered in the broader context of Egypt's economic policy reform and structural adjustment program. The internal consistency of the trade adjustment measures need to be viewed in terms of their linkage to domestic reforms; and whether new incentive systems are a sustainable part of the overall reform process. Ultimately, the effectiveness of those reforms in Egypt will depend on their impact on the economic efficiency of individual firms, and on the degree to which those reforms introduce greater external competitiveness.

B. RECOMMENDATIONS FOR POLICY MEASURES AND TECHNICAL ASSISTANCE SUPPORT

Several immediate areas of trade and customs regulations have been identified as requiring policy initiatives to strengthen Egypt's movement towards an outward-oriented economy. These reforms relate to the tariff structure, customs regulations and procedures, the GATT world trade agreement, export promotion, export competitiveness, and access to working capital. Box 9 summarizes the policy measures and steps needed to achieve those measures, including technical assistance requirements.

The recommended policy measures and technical assistance support are presented in order of their priority, and the sequencing of individual policy measures and technical assistance initiatives builds on previous policy measures and initiatives. In tariffs, reforms are needed to reduce the overall level and the disparity between tariffs on raw materials and capital goods and those on final goods. In customs regulations and procedures, the system needs to be streamlined through the establishment of a centralized processing center; procedures need to be documented and made available to businesses; and redundant procedures eliminated. Under the new GATT agreement, there is a need to develop an in-depth understanding of that agreement and its impact on Egyptian trade, and to support adjustments to the new rules governing trade. In export promotion activities, support is needed for private sector organizations to build broad-based services. In foreign trade competition, distortions by the earlier inward-looking policies should be identified and export-oriented activities with a high growth potential supported to improve their competitiveness in foreign markets. For small and medium-size exporters, there is a need to develop their access to working capital to ensure a neutral status in the competitive money and financial markets.

1. Develop Tariff-Reduction Strategies

Reductions in the overall level and disparity of tariffs represent one of the central components in the next stages of Egypt's reform process. To motivate the adoption of these initiatives on the part of the Government, there is an urgent need to develop the capacity to analyze the tariff structure and its effect on foreign and domestic demand for

BOX 9
RECOMMENDATIONS FOR POLICY MEASURES AND TECHNICAL ASSISTANCE SUPPORT

Rank	Policy Measure	Initial Measure	Intermediate Measure	Final Measure
1	**Reduce overall level and dispersion of tariffs.**	Develop capacity to analyze effects of changes in tariff structure.	Calculate ERP and impact of changes in tariff structure.	Develop tariff reduction strategy in the light of empirical findings.
2	**Streamline customs regulations and procedures.**	Undertake private sector assessment of trade constraints. Prepare a list of regulations and procedures that importers and exporters can use to identify the steps they need to take.	Identify and rank trade policy and customs regulatory and procedural constraints on private sector trade initiatives with a view to eliminating constraints and establishing a transparent system. Establish a "one-stop-shop".	Publish revised procedures and regulations. Reduce or eliminate redundant and time-consuming procedures.
3	**Limit quality controls to products subject to health, sanitary and religious requirements.**	Identify health, sanitary and religious requirements.	Apply health, sanitary, and religious requirements to selected products.	Eliminate all other quality control measures.
4	**Support adjustments to the new world trade agreement.**	Assess the effects of GATT 1994 on Egypt's trade policies.	Undertake GATT impact analysis on trade levels and patterns.	Support adjustments of export-oriented activities.
5	**Strengthen export promotion mechanisms.**	Dismantle Egyptian Export Promotion Center and transfer functions to private sector.	Support development of trade information system in Min. of Economy and Foreign Trade.	Broaden private sector trade development activities.
6	**Support improvements in international competitiveness of selected industries.**	Determine changes in international competitiveness of export industries at disaggregated level. Identify factors affecting competitiveness, including exchange rate appreciation.	Develop strategies to support activities with strong export growth potential.	Support development of international competitiveness of activities with strong export growth potential.
7	**Establish mechanism for small and medium-size exporters to secure access to working capital.**	Undertake financial sector assessment of credit facilities available to small and medium-size producers.	Identify channels through which working capital can be expanded.	Develop credit facilities for small and medium-size producers.

traded goods. The analysis itself should aim to quantitatively assess distortions on resource allocations arising from the tariff structure, and the impact of trade policy and customs reforms on the structure and level of trade by sector, product, and export market. The ultimate objective of this work is to motivate reductions in both the dispersion of the rates of protection and the average level of tariffs.

As a first step, there is a need to identify the distribution of tariffs among intermediate and final products based on recent changes in Egypt's tariff structure. The introduction of the Harmonized Tariff System should facilitate that process. The rationale for alternative tariff structures should be examined in the light of Egypt's experience and broad economic reform objectives. In particular, a strategy to adopt a uniform tariff is justified by administrative convenience, transparency, and political-economic considerations. In contrast, an optimal tariff structure based on relatively large tariff dispersions is based on self-sufficiency, protection and revenue objectives. At issue in this case is whether or not imported inputs should be subject to tariffs and, if so, whether they should be combined with duty drawbacks on exports.

The second step would consist of the calculation of effective rates of protection (ERP) in order to identify the magnitude of distortions. The ERP measures the increase in value added resulting from protection in an activity, taking full account of the tariff and NTB measures affecting inputs and final products. This protection depends on the tariff of the finished goods, the average rate of material inputs and components, and the extent of value added under free trade in the activity. Despite difficulties associated with deriving ERP estimates, they provide a policy perspective on the ranking of industries on the extent to which the Government's assistance policies affect production incentives. Thus it is an important tool for assessing the domestic economic impact of protection on resource allocation.

The final step would involve the estimation of the effects of changes in the tariff structure on foreign and domestic demand. A computable general equilibrium (CGE) framework would provide the basis for measuring producer and consumer welfare effects. This approach, however, relies on comparative static analysis; it therefore fails to consider intertemporal issues in trade. The CGE framework also excludes the analysis of long lags in adjustment processes by economic agents, which often give rise to cyclical behavior in markets. Dynamic effects that include large cyclical movements in the adjustment process of a market can significantly influence the welfare effects of the trade liberalization policies of countries and their trading partners. In contrast, an econometric modeling framework would differentiate between the initial effects of trade liberalization policies and the long-run effects (which are often different from one another), and it would trace the adjustment path of both traded quantities and prices after trade liberalization, thereby helping to assess the potential effects of these price and quantity movements on the gains and losses from trade policy initiatives. These results could then be applied to a CGE framework to analyze the welfare effects of trade liberalization on the Egyptian economy. Consideration should also be given to both the effects that tariff changes would have on the quality of trade, and the effects of monopolistic and oligopolistic interactions during trade liberalization.

Tariff reduction methods consist of (1) equal proportional cuts in all tariffs, (2) equiproportional reductions of tariffs over a target level, (3) higher proportional reductions of higher tariffs, and (4) lowering each rate to the next highest level (the so-called concertina method). The development of the analytical capacity to measure the impact trade liberalization on the Egyptian economy would provide the basis for the development of a tariff reduction strategy.

A fairly high level of technical assistance will be needed to undertake this work. The results would, nevertheless, be expected to have a considerable impact on the trade policy reform process, insofar as the analyses of the effects of reductions of tariff levels and spreads on output and demand would provide information to both the private and public sectors that could encourage those reductions. The key government counterpart would be the Ministry of Economy and Foreign Trade.

2. Streamline Customs Regulations and Procedures

A private sector assessment of trade constraints is needed to identify the magnitude and relative importance of regulatory and procedural trade barriers that currently exist in Egypt. Although the World Bank has recently undertaken surveys addressing these issues in other countries, its recently completed private sector assessment of Egypt addressed a broader set of issues and therefore did not focus specifically on impediments to trade. The first step in reforming customs regulations and procedures will therefore be to identify and rank trade policy and customs regulatory and procedural constraints on private sector trade initiatives with a view to eliminating those constraints and establishing a transparent system.

Based on preliminary evidence and interviews conducted in the business community, it is clear that the complex customs regulations and procedures, and inadequate coordination of policies represent major barriers to trade in Egypt. While the Economic Group of Ministers has attempted to coordinate the rules and regulations governing trade and other economic activities, conflicting policy initiatives remain on the part of different government ministries. These conflicting initiatives arise quite naturally from the different orientations of ministries, including the revenue-raising orientation of the Ministry of Finance, the trade promotion function of the Ministry of Economy and Foreign Trade, and the regulatory functions of both the Ministry of Agriculture and the Ministry of Industry.

The extent of administrative requirements and oversights from the different ministries have yet to be detailed in a published list of steps that importers and exporters can use to identify the steps they need to take. Concurrent with the publication of these procedures, there is a need to organize a "one-stop shop", whose purpose would be to centralize all administrative and bureaucratic procedures required of traders. Initially, it would be advantageous if the center were to be located both in port facilities and export promotion centers to encourage the use of those facilities. With a one-stop shop, institutional improvements in the coordination of trade and customs regulation policies among different government ministries would evolve naturally, since the operation of these facilities tends to streamline and reduce the number of procedures and "red tape" processes involved in trade activities.

A considerable level of technical assistance would also be needed for this policy measure. The private sector assessment of trade constraints would require a comprehensive survey to identify the major constraints on trade activities, including all possible regulatory, administrative, financial, and structural barriers to trade. In addition to identifying the obstacles, the survey would include a ranking of constraints to trade, which would subsequently be used to prioritize reform initiatives. In conducting the survey, a list of regulations and procedures that importers and exporter must follow for each transaction would be drawn up from the information gathered. These data would then be analyzed with the ultimate aim of reducing or eliminating redundant and time-consuming procedures. The government counterparts that would be the most appropriate for the activities required for this policy measure are the Ministry of Economy and Foreign Trade and the Ministry of Finance. The private sector assessment of trade constraints is a function normally administered by the Ministry of Economy and Foreign Trade, while the establishment of a one-stop shop and publication of procedures and regulations governing trade is the function of the Customs Department in the Ministry of Finance.

3. Limit Quality Controls

Quality controls are the most important NTBs to trade remaining in Egypt. Those controls need to be limited to products subjected to health, sanitary, and religious requirements. The ultimate goal of this policy measure is the removal of controls on all products other than those related to health, sanitary and religious activities.

The procedure for eliminating non-essential controls consist of three steps. The first is the identification of controls related to health, sanitary and religious activities. Once the set of products requiring controls has been identified, the second step consists of adopting appropriate controls on the limited range of products. The final measure required of this measure involves the elimination of all quality control measures on other products.

Considerable work has already been undertaken in this area. The level of effort needed to implement this policy measure is consequently relatively small. Nevertheless, the active participation of the Customs Department in the Ministry of Finance will be essential for the successful adoption of this policy measure.

4. Support Trade Adjustments to the GATT World Trade Agreement

The new world trade agreement that was signed on April 15, 1994 introduces major changes to the rules governing both the industrialized and developing countries. Given these changes, it is essential that the Egyptian Government understand the consequences of the agreement for its country's trade, as well as that of its major markets and competitors. Although considerable attention to the issues surrounding the agreement has been given in both the private and public sectors, an in-depth analysis and quantification of the agreement's implications for Egypt have not yet been undertaken.

Technical assistance should accordingly be directed to the analysis of the impact of the GATT world trade agreement in the following areas:

- the import demand in Egypt's foreign markets in light of the 10-year phasing commitments;
- the international competitiveness of Egyptian industries relative to competing suppliers to markets;
- the growth of Egypt's exports in traditional and non-traditional markets, and changes in market shares resulting from increased competition with other suppliers;
- the growth potential of foreign direct investment;
- the growth potential of intra-industry and intra-firm trade; and
- the possible development of free trade areas with other Arab states and African countries.

The ultimate aim of this policy measure would be to identify areas where technical support could be used to develop Egypt's international competitiveness, increase intra-industry and intra-firm trade, expand foreign direct investment, and, where appropriate, develop free trade areas in light of the GATT agreement governing trade. The key Government counterpart would be either the Technical Secretariat attached to the Prime Minister's office or the Ministry of Economy and Foreign Trade.

5. Strengthen Export Promotion Mechanisms

The Government's drive to promote exports should include the support of effective trade promotion organizations. An initiative in this area should recognize that the most effective means of promoting exports is through private sector support, which may be directed toward existing institutions that do not otherwise require institution-building resources. These existing institutions would nevertheless need to be supported in their efforts to obtain commercially useful information from foreign markets, and to obtain privileged information through public sector suppliers. Privileged information includes trade data bases from the United Nations International Computing Centre, foreign market tariff information through the SMART system of UNCTAD, and NTBs to trade in potential export markets through the TRAINS system of UNCTAD.

A first step in support of the institution-building efforts to strengthen trade promotion mechanisms would consist of the dismantling of the Government's Egyptian Export Promotion Center. The functions of this government entity should be transferred to the private sector, and support provided for the development of a broad-based information service in that sector. There is ample experience on the development of trade promotion centers in other developing countries, and the lessons learned from those experiences should be applied to Egypt's efforts. At present the model used for export promotion in the private-sector-based Trade Development Center relies on direct technical assistance to individual business in sectors identified as having export potential. Assistance focuses on quality, quantity, contract compliance, and marketing. Technical assistance to institutionalize export promotion efforts should ultimately aim to develop a broad-based support service for exporters that addresses the diverse and specific nature of exporters' activities.

Concurrent with private sector support, technical assistance will be needed to develop essential trade information for public sector policy formulation. The Ministry of Economy and Foreign Trade is beginning to develop an information system on trade which supports this initiative. A separate task in the present policy measure would therefore aim to provide technical assistance to the Ministry in the design of its information center. As part of that activity, assistance should be provided to support the dissemination of the information to trade promotion facilities in the private sector. The Ministry of Economy and Foreign Trade is the appropriate government counterpart for all the activities related to this initiative.

6. Improve Export Competitiveness

An outward-oriented strategy should include support for those industries that have been identified as having a strong export growth potential. While this strategy is based on a neutral status that enables exporters to compete with foreign competitors in world markets on an equal footing, limited intervention mechanisms that serve to improve international competitiveness of domestic industries can be helpful in the transition to a market economy.

Limited, low-cost intervention with clear performance criteria has been successfully used by some Northeast Asian economies, but the export success of Southeast Asia, whose initial conditions parallel those of many developing counties, is based on little government intervention (World Bank, 1993a, 1993b). Indeed, the World Bank's survey of these countries found that the promotion of specific industries in East Asia was generally not successful. Support of export-oriented activities should therefore be limited to institutional support that permits a market-determined improvement in the export performance of industries. The ultimate goal of this policy measure is therefore to support the development of those activities with a strong export growth potential to foster the movement towards an outward-oriented economy, and to correct the distortions caused by Egypt's central planning, public sector-dominated economic activity and inward-looking industrialization prior to the 1991 ERSAP.

The initial measure required of this policy initiative consists of the identification of productive activities with a strong export growth potential. For each industry, the analysis should consider the export market growth potential, the domestic supply responsiveness to price incentives, and Egypt's competitiveness relative to other suppliers to the export markets. The market analysis should begin by examining trade flows to traditional and non-traditional markets. Technical assistance should be provided to estimate the import price and income elasticities of import demand in Egypt's major markets, the export supply and demand relationships, and measures of international competitiveness. Measures of the domestic supply responsiveness are likely to require pooled cross-section and time-series analysis, since structural changes can invalidate pure multivariate time-series analysis. The measurement of competitiveness should be based on estimates of the price elasticity of substitution and price elasticity of export demand for specific products.

Concurrent efforts will need to be made to estimate the impact of the exchange rate appreciation since 1991 on Egypt's export competitiveness. As part of this analysis, it will be important to determine whether or not the real exchange rate is near an equilibrium level since, if the exchange rate has become overvalued, it could undermine trade policy reforms. As an end-product in itself, the analysis of Egypt's export competitiveness and the growth potential of traditional and non-traditional export industries would provide much-needed information for investment and export decisions.

The intermediate measure consists of the provision of technical support to develop international competitiveness of the targeted activities. These activities can be industry-based or sector based and can encompass goods or services. Support for these activities can originate from several sources, including expanded technical assistance facilities for those activities in export promotion centers, increased access to credit facilities, and direct technical assistance to the industries or sectors. At this stage in Egypt's reform process, expanded information services offered by the export promotion center and increased credit facilities are likely to yield a greater return from each unit of expenditure on the part of donors than direct technical assistance. Expanded export promotion center services and increased credit facilities both provide broader support than direct technical assistance at an enterprise level. The Ministry of Economy and Foreign Trade is the appropriate government counterpart for all activities related to this initiative.

7. Broaden Access to Working Capital

As the Egyptian economy adjusts to export-oriented activities, small and medium-size exporters should have greater access to working capital to develop their export capacity. At present, the preference of financial markets towards large firms constrains the development of the export-orientation of the small and medium-size productive sector of the economy. The objective of this policy measure would be to assure neutral status in competitive financial markets.

As a first step in this initiative, technical assistance should be provided to undertake a financial sector assessment of funding sources currently available to small and medium-size enterprises. The subsequent identification of channels through which working capital can be made to reach these firms should focus on preshipment working capital loans, since postshipment working capital loans are less important to those firms (Rhee, 1985). Within this type of financing, short-term preshipment export loans are critical insofar as they can allow exporters to fill confirmed orders, while operating capital tends to be more important than investment capital. As in most developing countries, Egypt would need to develop a government-sponsored export financing system, administered by the Central Bank of Egypt, to provide credit facilities to small and medium-size producers of export-oriented goods and services. The technical assistance required for this initiative would focus on the financial sector assessment of funding sources for small and medium-size enterprises, and the identification of priority lines of credit needed by actual and potential export-oriented industries. The key government counterpart would be the Central Bank of Egypt.

C. TARGETING INSTITUTIONAL SUPPORT

Technical assistance support for continued reform should be directed at both the public and private sectors. In the public sector, it should be directed at the development of a strategy that addresses key trade policy issues in Egypt. The proposed policy measures suggest that technical assistance is needed at different levels and different entities of the Government. The appropriate government counterpart to undertake the proposed technical assistance projects aimed at developing a tariff-reduction strategy, conducting a private sector assessment of trade constraints, and broadening export promotion mechanism is the Ministry of Economy and Foreign Trade. For the technical assistance to limit quality controls, and to develop a one-stop shop and publish the procedures and regulations on trade, the Customs Department of the Ministry of Finance is the appropriate counterpart. For the technical assistance to support adjustments to the

GATT world trade agreement, the counterpart should be either the Technical Secretariat attached to the Prime Minister's office or the Ministry of Economy and Foreign Trade. For the technical assistance to broaden access to working capital, it is the Central Bank of Egypt. For the technical assistance to improve Egypt's export competitiveness, it is the Ministry of Economy and Foreign Trade in close collaboration with the Ministry of Industry and the Ministry of Agriculture. Alternatively, technical assistance for that policy initiative could be directed through the High Ministerial Economic Reform Committee, or the Economic Group of Ministers to allow for the coordination of work among the ministries.

In the private sector, the urgent need to develop export promotion services suggests that the creation of new institutions would be excessively costly and time-consuming. The existence of private sector organizations could provide the institutional framework necessary for the build-up of broad-based export development services. These services would include access to commercially useful information from foreign markets, and privileged information on trade flows and foreign market regulatory practices through commercial suppliers and through the trade information system of the Ministry of Trade and Foreign Trade. Parallel support for technical studies could be directed at both private and public sector organizations, depending on the nature of the work.

ANNEX A: INTERVIEWS CONDUCTED

	Date
I. DONOR AGENCIES	
USAID/Egypt	
Mark Gellerson, Economics Officer	10 Jan. & recurrent
Fred Kirschstein, Trade and Investment Officer, Office of Finance and Investment	10 Jan.
Ehrich Rollo, Office of Agricultural Credit and Economics	11 Jan.
Ali Kamel, Office of Agricultural Credit and Economics	11, 20 Jan.
Paul R. Deuster, Associate Director, EAP	13 Jan.
Paul F. Mulligan, Deputy Associate Director, Economic Analysis and Policy	13 Jan.
Nagi El Fayoumi, Trade and Investment	20 Jan.
US Embassy	11 Jan.
Mary Soliman, Economic Assistant	
Marilyn Spinak	
Laron Jensen, Counselor for Commercial Affairs	
Other Donors	
UNDP: Laila Darwish, Programme Officer & Chief, Programme Support Unit	17 Jan.
EU: Daniel Guiglaris, Economic Advisor	18 Jan.
World Bank: Marcel Giugale, Resident Representative	25 Jan.
IMF: Milan Zavadjil, Resident Representative	12 Jan.
II. GOVERNMENT AGENCIES	
Ministry of Economy and Foreign Trade	
F. Shakweer, First Under Secretary	13 Jan.
Ali Soliman, Deputy Minister	13, 20 Jan.
Mohamed El Shafii, Under Secretary of Foreign Trade Affairs Sector	16 Jan.
Ministry of Finance	
Montaz Al Sais, Head of Budget Section	20 Jan.
Fati Salama, Head of Customs Administration	22 Jan.

Ministry of International Cooperation (MIC) 18 Jan.
Ahmed M. El Dersh, First Under Secretary
Nermine Abo El Ata, Member, Technical Secretariat MIC

Ministry of Planning 15 Jan.
Hamed M. Rihan, Secretary General
and Director of Foreign Relations Scientific Center
E-Sayed A. Dohaia, First-Undersecretary

Institute of National Planning 15 Jan.
Moustafa Ahmed Moustafa, International Economics

Egyptian Export Promotion Center 17 Jan.
Wafaa Abdel-Maaboud, Executive Director
Nabil Abdel Sayed, Director and General Manager, Industrial Dept.
Fayez Hanna Geneidy, General Manager, Agriculture Dept.
Manal Kamal Karim, Head of Research Section, Processed Food

International Economic Relations Centre 15 Jan.
Mahmoud M. Abd-El Hai

Central Bank 16 Jan.
Faika M. El Refaie

III. PUBLIC & PRIVATE TRADE-RELATED ORGANIZATIONS

Export Development Bank 18 Jan.
Hazem Biblawi, Chairman

Prime Bank for Development Agricultural Credit (PBDAC) 12 Jan.
Mahmood Noor, Vice Chairman

Trade Development Center 16 Jan.
Emad Abdel Razek, Executive Director
John R. Miller, Senior Officer EED Project

Trade Net 20 Jan.
Hatem El Zorkany

Economic Research Forum 24 Jan.
Hebba Handoussa, Managing Director

IV. PRIVATE SECTOR

Private Sector Exporters and Importers	
Galal Zaki, President, Intermarkets Public Relations	12 Jan.
Amir E. Saba, General Manager, Scarab of Egypt	12 Jan.
Hassan El-Shafei, Board Member, Techno Glass Industries, and former Chairman, American Chamber of Commerce - Customs Committee	12 Jan.
Egyptian Businessmen's Association	19 Jan.
Khaled Hamza, Head of Customs Committee and Head, Engineering Trading Services	
American Chamber of Commerce	12 Jan.
General Meeting of Trade Committee	
Egyptian Federation of Industries	20 Jan.
Mahmoud El Arabi, Chairman	

ANNEX B: STATISTICAL TABLES

Table

Table 1
KEY MACROECONOMIC INDICATORS, 1989/90 - 1992/93

	1989/90	1990/91	1991/92	1992/93*
Real GDP (%)	2.4	2.1	0.3	0.5
Consumer Price Index (%)	21.2	14.7	21.1	11.1
Exchange Rate L.E./US$	2.581	3.226	3.332	3.322
Fiscal Deficit to GDP ratio	-15.8	-17.2	-5.0	-4.7
Current Account of Balance of Payments (US$ Millions)	-2,594	1,596	2,604	934

* Estimates.

Sources: Ministry of Planning and the Central Bank of Egypt.

Table 2
COMPOSITION OF GDP, 1989/90 - 1992/93
(percent of GDP)

	1989/90	1990/91	1991/92
Gross Domestic Product	100.0	100.0	100.0
Consumption	95.0	93.0	94.0
Private	84.0	83.0	84.0
Government	12.0	10.0	10.0
Gross Capital Formation	22.0	20.0	18.0
Private	7.0	7.0	7.0
Government	15.0	13.0	11.0
Change in Stocks	0.1	0.1	0.1
Exports of Goods and Nonfactor Services	24.0	30.0	27.0
Imports of Goods and Nonfactor Services	-41.0	-44.0	-39.0

Source: Ministry of Planning.

Table 3
BALANCE OF PAYMENTS, 1989/90 - 1992/93
(Millions of US dollars)

	1989/90	1990/91	1991/92	1992/93
Trade Balance	-8297	-7538	-6406	-7036
Exports	3144	3887	3636	3458
Petroleum	1229	1971	1651	1700
Others	1916	1916	1985	1758
Imports	-11441	-11425	-10040	-10495
Services (net)	866	536	2192	1641
Receipts	6094	6734	7178	7344
Suez Canal Dues	1472	1662	1950	1940
Tourism	1072	924	1527	1512
Investment	1164	1416	1293	1292
Other	2387	2732	2408	2600
Payments	-5228	-6198	-4986	-5703
of which: Interest	-2960	-3716	-1311	-1587
Workers' Remittances	3743	3755	5467	5000
Official Transfers 1/	1094	4842	1349	1330
Current Account Balance	-2594	1596	2604	934
Capital Account	-1189	-981	2777	2317
Errors and Omissions	2572	1379	559	649
Overall Balance	-1211	1994	5940	3900

Source: Central Bank of Egypt.

Table 4 MAJOR EXPORTS, 1989/90 - 1992/93 (Millions of US Dollars)				
	1989/90	1990/91	1991/92	1992/93
Petroleum	1229	1971	1651	1803
Crude Oil	910	1463	1171	na
Petroleum Products	319	508	480	na
Agricultural Products	407	226	258	198
Cotton	220	83	35	37
Rice	7	4	33	26
Potatoes	15	28	40	19
Citrus Fruits	90	38	58	42
Others	75	73	91	74
Spinning and Weaving	635	529	575	450
Cotton Yarn	446	318	283	204
Cotton Textiles	59	75	87	65
Others	130	136	205	181
Other Industries	667	634	886	692
Foodstuff	60	86	145	98
Chemicals	248	180	237	110
Metall. & Engineer.	278	278	381	364
Others	81	90	123	120
Other Undistributed Commodities	207	527	264	275
Total	3,145	3,887	3,634	3,417
Source: Central Bank of Egypt				

Table 5 COMPOSITION OF IMPORTS, 1989/90 - 1992/93 (Millions of US dollars and percentages)			
	1990/91	1991/92	1992/93
Millions of US dollars:			
Foodstuff Goods	2,191	2,286	2,270
Intermediate Goods	4,530	4,079	4,735
Capital Goods	3,852	3,263	3,170
Others	851	425	557
Total	11,425	10,054	10,732
Percentage Composition:			
Foodstuff Goods	19.2	22.7	21.2
Intermediate Goods	39.6	40.6	44.1
Capital Goods	33.7	32.5	29.5
Capital Goods	7.4	4.3	5.2
Total	100.0	100.0	100.0

Source: Central Bank of Egypt.

Table 6
DIRECTION OF TRADE, 1989/90 - 1992/93
(Percent of total)

	1989		1990		1991	
	Imports	**Exports**	**Imports**	**Exports**	**Imports**	**Exports**
Industrial Countries	**70.3**	**54.1**	**62.0**	**26.7**	**47.7**	**37.3**
EU	**38.7**	**42.6**	**22.7**	**15.4**	**27.6**	**28.3**
Italy	5.8	13.8	2.1	5.0	6.8	14.8
France	9.0	7.1	9.4	4.0	6.9	5.9
Germany	9.7	5.2	10.2	..	10.4	3.7
United Kingdom	4.2	2.6	..	..	..	..
Netherlands	3.2	5.7	1.1	6.3	3.4	3.8
Greece	..	2.3	..	..	..	..
United States	**17.6**	**5.2**	**2.0**	**8.6**	**16.1**	**7.6**
Japan	**3.9**	**3.6**	**37.2**	**2.7**	**4.1**	**1.4**
Middle East	**2.0**	**15.3**	**1.6**	**9.3**	**3.2**	**10.1**
Developing Countries	**18.5**	**13.1**	**7.6**	**6.5**	**10.8**	**7.3**
Africa	0.8	1.2	0.7	2.0	0.7	2.0
Asia	7.2	6.9	3.0	1.3	4.8	1.8
Europe	8.5	4.7	2.0	3.3	2.2	3.5
Western Hemisphere	2.0	0.3	1.8	..	3.2	..
Former USSR & E. Europe	**4.9**	**14.5**	**3.0**	**15.8**	**1.8**	**6.3**
Other Countries	4.3	3.0	25.9	41.7	36.4	39.0
Total	**100.0**	100.0	**100.0**	**100.0**	**100.0**	**100.0**

Source: International Monetary Fund, *Direction of Trade Statistics 1992*.

Table 7
INTEREST RATES, PRICES, AND EXCHANGE RATES, mid-1991 - 1993
(Percentages)

	3-month Treasury Bill	CBE Discount Rate	3-month Deposit Rate	Lending Rate	Consumer Price Index	Exchange Rate
1991 (average)	**18.3**	**20.9**	**13.3**	**17.7**	**19.8**	**3.311**
July	19.5	21.3	13.9	19.1	na	3.329
August	19.4	21.3	14.6	20.1	na	3.319
September	19.4	21.3	15.5	20.2	na	3.318
October	19.4	21.4	15.9	20.3	na	3.321
November	19.2	21.2	16.5	21.2	na	3.323
December	18.1	20.0	16.2	20.4	na	3.332
1992 (average)	**17.4**	**19.5**	**16.5**	**20.3**	**13.6**	**3.322**
January	18.7	20.7	17.2	20.9	na	3.321
February	18.4	20.4	17.2	20.7	na	3.323
March	17.9	20.0	17.1	21.0	na	3.321
April	17.8	19.8	17.0	20.9	na	3.321
May	17.9	19.8	16.8	20.9	na	3.319
June	17.6	19.8	16.7	20.3	na	3.321
July	17.4	19.5	16.7	20.0	na	3.320
August	17.1	19.1	16.5	20.4	na	3.322
September	17.0	19.1	16.3	20.2	na	3.319
October	16.6	18.7	15.9	19.7	na	3.317
November	16.5	18.7	15.6	19.5	na	3.325
December	16.4	18.4	15.1	19.1	na	3.339
1993 (Jan-May Ave)	**15.7**	**17.8**	**14.5**	**19.0**	**na**	**3.342**
January	16.2	18.4	15.0	19.4	na	3.340
February	16.0	18.0	14.8	19.1	na	3.341
March	16.0	18.0	14.5	19.1	na	3.342
April	15.6	17.8	14.2	19.0	na	3.342
May	14.8	17.0	13.8	18.4	na	3.346

Source: Central Bank of Egypt.

Table 8
GOVERNMENT OPERATIONS, 1989/90 - 1992/93
(L.E. Millions)

	1989/90	1990/91	1991/92	1992/93
Total Revenue	19,505	28,560	41,197	46483
Central Government	15,644	23,876	35,842	40893
Tax Revenue	11,742	15,504	24,285	27302
Taxes on income and profits	4,245	6,407	9,996	11112
Taxes on Property	1	2	4	8
Taxes on Goods & Services	2,874	3,373	6,324	7205
Customs Duties	2,917	3,267	4,588	5016
Stamp Duties	1,058	1,315	1,839	2068
Other taxes	647	1,140	1,534	1893
Nontax Revenue	3,902	8,372	11,557	13537
Local Govt Revenue	928	1,092	1,408	1797
Public Serv. Authorities	476	641	749	867
Investment Self-Finan'g	2,547	2,951	3,198	2298
Total Expenditures	31,945	45,509	47,065	51958
Current Expenditures	22,446	29,678	36,198	41031
Capital Expenditures	9,499	15,831	10,867	10927
Overall Deficit	-12,439	-16,949	-5,868	-5475
as Percent of GDP	-15.8	-17.2	-5.0	-4.1

Sources: Ministry of Finance and Central Bank of Egypt.

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