

## U.S.-Egypt Business Council

### REPORT ON ECONOMIC AND TRADE POLICY DEVELOPMENTS

Second Quarter 2004

---

#### **Economy**

Many observers see signs that the Egyptian economy is improving after three difficult years. During a recent visit to Egypt, World Bank vice president for the Middle East and North Africa Christian Poortman said the "The Egyptian economy has weathered the [Iraq] war better than expected, and, for the short term, the outlook is good....A continuous focus on structural change needs to continue."

Poortman also said during his visit that, "the longer term requires decisive decisions at an early stage." While the economy is predicted to grow at an annual rate of 4% this year, a 5% growth rate is needed to reduce unemployment and keep pace with new entrants into the job market. "In no small measure, MENA's economic future will be determined by the fate of its labor markets," Poortman continued, "The challenges to be overcome are enormous; their complexity is enormous. Yet, the costs of inaction and the benefits of dynamic labor markets underscore the imperative of acting quickly and decisively."<sup>1</sup>

In a speech to the American Chamber of Commerce in Cairo at the end of May, U.S. Ambassador to Egypt David Welch also called attention to a number of positive developments in the Egyptian economy, including a rise in exports stimulated by the floating of the Egyptian pound. He noted, for example, that cement and some clothing exports were up sharply. As the balance of payment table in the June 2004 Dashboard shows, non-oil exports during the period July 2003-March 2004 rose 25.6 % over the corresponding 2002/2003 period. Imports also rose 14% during this period.

The biggest beneficiary of the more favorable exchange rate regime was not the merchandise account, but the services account. EFG-Hermes notes that the services trade balance accounted for almost all of the improvement in Egypt's current account balance. Ambassador Welch noted that the number of tourists coming from the U.S. doubled between 2002 and 2003. In FY02/03, foreign currency revenues generated by tourism hit \$3.8 billion, an 11% increase on the previous year. If this trend continues, foreign currency revenue for FY03/04 is expected to pass the \$5 billion mark.

---

<sup>1</sup> Poortman's comments reflect a phenomenon noted in a September 2003 World Bank report, which warned that as the Middle East region's increasingly-educated and young populations complete their schooling, its already strained labor markets, with unemployment rates averaging 15 percent and a labor force growing at more than 3 percent annually, are facing a daunting challenge. To meet this almost unprecedented employment challenge, the report says the countries in the MENA region must reinvigorate the private sector, integrate into the global economy, and better manage oil resources. To fuel these economic reforms, the report called for a new "social contract" between the governments and their citizens.

### **New Taxes to Address Budget Deficit**

In an effort to increase state revenues and address the growing budget deficit, which currently stands at LE 52.5 billion, the government increased taxes on luxury items such as cars, mobile phones and tourism-related enterprises in June. A development tax of 3 to 8.5% was imposed on both locally-manufactured and imported automobiles. Some commented that the taxes came at a time when the local automobile industry, which has played a key role in the recent economic recovery, is beginning to pick up.

### **New Requirement Affects Clothing Imports**

Ministry of Foreign Trade Decree No. 68 of 2004, issued in February, requires foreign-based textile and garment factories to meet specific environmental and work-safety standards in order to export to Egypt. The standards follow International Labor Organization (ILO) conventions aimed at eliminating child labor. Foreign factories are required to register with the General Organization for Export & Import Control (GOEIC).

### **WTO Panel Rules on US Cotton Subsidies**

According to press reports, a WTO dispute settlement panel has found that U.S. subsidies on cotton violate WTO obligations. The panel found that certain export credit guarantees and payments to U.S. companies that purchase U.S. cotton for export or to mill are inconsistent with WTO rules and should be eliminated. The panel report will not be released to the public until August and could be appealed.

### TOP 10 & TOTAL EGYPTIAN EXPORTS TO US

HTS Number & Description	2002	2003	2003 Jan-April	2004 Jan-April	Percent Change JAN-APR 2003/2004
	<i>In Millions of Dollars</i>				
62 APPAREL & ACCESSORIES, NOT KNITTED OR CROCHETED	217	238	89	90	2%
27 PETROLEUM PRODUCTS	194	163	55	20	-64%
61 APPAREL & ACCESSORIES, KNITTED OR CROCHETED	131	143	52	53	1%
98 SPECIAL CLASSIFICATION PROVISIONS (incl. re-exports)	444	137	54	36	-35%
72 IRON AND STEEL PRODUCTS	94	78	43	29	-34%
57 CARPETS AND OTHER TEXTILE FLOOR COVERINGS	58	71	25	21	-15%
52 COTTON ( incl. yarns & woven fabric thereof)	52	56	21	14	-34%
31 FERTILIZERS	12	49	27	0	-100%
63 BED & TABLE LINENS, ETC.	29	37	15	16	4%
28 CARBON (incl. carbon black)	22	23	8	2	-72%
<b>TOTAL EGYPTIAN EXPORTS TO US</b>	<b>1,3401</b>	<b>1,127</b>	<b>446</b>	<b>315</b>	<b>-30%</b>

### TOP 10 & TOTAL US EXPORTS TO EGYPT

HTS Number & Description	2002	2003	2003 Jan-Apr	2004 Jan-April	Percent Change Jan-Apr 2003/2004
	<i>In Millions of Dollars</i>				
10 CEREALS	637	782	169	394	133%
84 MACHINERY & MECHANICAL APPLIANCES	355	401	137	155	13%
87 VEHICLES, NON-RAILWAY	229	283	73	85	15%
88 AIRCRAFT (incl. PARTS)	561	256	37	124	237%
85 ELECTRICAL MACHINERY & EQUIPMENT	163	141	59	39	-35%
23 PREPARED ANIMAL FEED	90	75	25	9	-66%
27 MINERAL FUEL & OIL PRODUCTS	41	66	21	32	50%
90 OPTICAL, PHOTO, MEDICAL INSTRUMENTS, etc.	59	64	13	27	118%
39 PLASTICS ARTICLES	68	64	13	25	97%
15 ANIMAL OR VEGETABLE FATS AND OILS	43	57	42	7	-84%
<b>TOTAL US EXPORTS TO EGYPT</b>	<b>2,866</b>	<b>2,660</b>	<b>724</b>	<b>1,100</b>	<b>52%</b>

\* FAS basis

Sources: Data on this page have been compiled from tariff and trade data from the U.S. Department of Commerce, the U.S. Treasury, and the U.S. International Trade Commission. Product category descriptions have been adjusted to reflect primary products traded between the US and Egypt.

### Egyptian Exports Classified by Commodity Groups (Annual Profile)

HS Code	(in Millions of US Dollars)	2001	2002	2003
<b>Total Exports</b>		<b>4,123</b>	<b>4,689</b>	<b>6,147</b>
01	Livestock & Animal Products	15	22	39
02	Vegetables Products	342	330	401
03	Fats, Grease, Oils (Animal & Vegetable) Dissolvent, Prepared Edible Grease	18	15	23
04	Food Manufacturing Products, Beverages, Alcohols and Vinegar	68	73	97
05	Metal Products	1,737	1,703	2,954
06	Chemical Industries Products and Related Industries	279	262	334
07	Artificial Plastics, Cellulose Citrate	118	92	161
08	Manufactured Leather and Fur	25	27	28
09	Wood, Wood Cool, Wooden Manufactures, Cork and Cork Manufactures	6	4	5
10	Materials Used in Paper Industry, Carton, Carton Manufactures	37	32	37
11	Textiles, and Textiles, Manufactures	728	801	902
12	Shoes, Head Dresses, Umbrellas, Whips and Their Parts	1	1	1
13	Industries Made of Stone or Gypsum or Cement or Rock Silk	98	240	96
14	Pearl, Precious and Semi-precious Stones, Precious Metals and Ordinary	10	146	115
15	Ordinary Metals and Manufactures	311	401	521
16	Machinery and Appliances, Electrical Equipments and Their Parts	48	60	52
17	Transportation Equipments	5	7	6
18	Articles and Appliances for Pittances for Optics, Photography, Cinema	2	2	2
19	Weapons and their Parts	0	0	0
20	Other Manufactured Categories not Mentioned or Listed Before	20	26	26
21	Masterpieces, Collection Sets and Antiques	0	0	0
(Exchange rate discrepancies)		255	448	347

Source: CAPMAS .

### Egyptian Imports Classified by Commodity Groups (Annual Profile)

HS Code	(in Millions of US Dollars)	2001	2002	2003
<b>Total Imports</b>		<b>12,639</b>	<b>12,524</b>	<b>10,927</b>
01	Livestock & Animal Products	570	532	405
02	Vegetables Products	1,741	1,993	1,537
03	Fats, Grease, Oils (Animal & Vegetable) Dissolvent, Prepared Edible Grease	175	181	153
04	Food Manufacturing Products, Beverages, Alcohols and Vinegar	853	806	664
05	Metal Products	781	633	672
06	Chemical Industries Products and Related Industries	1,164	1,254	1,064
07	Artificial Plastics, Cellulose Citrate	670	590	520
08	Manufactured Leather and Fur	17	15	8
09	Wood, Wood Cool, Wooden Manufactures, Cork and Cork Manufactures	566	551	478
10	Materials Used in Paper Industry, Carton, Carton Manufactures	379	285	246
11	Textiles, and Textiles, Manufactures	268	246	276
12	Shoes, Head Dresses, Umbrellas, Whips and Their Parts	30	31	21
13	Industries Made of Stone or Gypsum or Cement or Rock Silk	133	139	111
14	Pearl, Precious and Semi-precious Stones, Precious Metals and Ordinary	29	3	3
15	Ordinary Metals and Manufactures	1,240	1,159	871
16	Machinery and Appliances, Electrical Equipments and Their Parts	2,460	2,123	1,711
17	Transportation Equipments	401	351	351
18	Articles and Appliances for Optics, Photography, Cinema	268	264	215
19	Weapons and their Parts	0	1	0
20	Other Manufactured Categories not Mentioned or Listed Before	114	109	89
21	Masterpieces, Collection Sets and Antiques	26	0	0
	(Exchange rate discrepancies)	754	1,258	1,532

Source: CAPMAS.