How Egypt Can Benefit from Its Membership in the WTO

PREPARED BY
Richard Blackhurst

SUBMITTED TO
USAID

SUBMITTED BY
Nathan Associates Inc

UNDER CONTRACT NO.
PCE-I-00-98-00016-00
Task Order 827

15 July 2002

This publication was produced by Nathan Associates Inc. for review by the United States Agency for International Development

Conference on Institutional and Policy Challenges Facing the Egyptian Economy
Cairo, 26-27 May 2002

Revised version
15 July 2002

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INTRODUCTION

It is helpful to begin a discussion of a trade policies by recalling that the trade regime is only one of many policy areas that are important for economic development. While the evidence suggests strongly that intelligent trade policies promote economic growth, it is also clear that other development-related policy areas are as, or in some instances more, important. These include rule of law, the education system, investment policies, macroeconomic policies, policies directly affecting the degree of competition among domestic firms and, more broadly, the role of institutions and institutional change in the design and analysis of policy reforms. Moreover, policies in other areas can influence the extent to which intelligent trade policies contribute to economic development.

To explain how Egypt can benefit from its WTO membership, it is useful to begin by noting that the WTO performs two principal functions for its members:

- It reduces policy-related uncertainty surrounding the exchange of goods and services across national frontiers, by providing a set of **rules and procedures** governing selected trade-related policies.

- It provides a **forum** for (1) dispute settlement; (2) negotiations both to further liberalize trade-related policies, and to strengthen and extend the rules/ procedures; (3) the protection of intellectual property, (4) the review of national trade policies, and (5) cooperation with the IMF and World Bank on selected issues.

From a more practical perspective, the WTO influences trade-related polices in two major ways. Taking Egypt as the example, they are:

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*Graduate Institute of International Studies, Geneva. Former Director of Economic Research at the GATT/WTO Secretariat (1985-97).

I. **Egypt as an exporter**: the WTO plays a central role in protecting and enhancing Egypt's market access abroad:

- *Currently*, by providing rules and procedures Egypt can use to monitor the trade policy behavior of trading partners and, if necessary, resolve disputes;

- *In the future*, by providing – in the Doha Round – Egypt with a forum for pursing (i) reductions in foreign barriers to Egyptian exports of goods and services, and (ii) improvements in WTO rules and procedures.

II. **Egypt as an importer**: WTO rules and procedures also have a major influence on Egypt's own trade-related policies:

- *Currently*, by requiring Egypt to implement existing WTO rules and obligations, including rules that permit (but do *not* require) Egypt to have policies designed to ensure fair competition in its home market:

- *In the future*, by enabling the Egyptian government to use the WTO's reciprocity-based negotiations to continue the process of reforming and liberalizing Egypt's trade regime in order to increase economic efficiency and growth.

WTO members are willing to incur obligations in the area of trade-related policies, including binding dispute settlement, because what they give up in terms of reduced discretion (reduced sovereignty) is more than compensated by the obligations their trading partners incur. In effect, the reduction in policy sovereignty is more than compensated by the increased predictability of trading partners' policies and more secure access to foreign markets.[1]

Here it should be noted that it is not just foreigners who benefit from a country's trade-related policies becoming more predictable, stable and transparent, but also domestic groups, in particular investors – especially those in the many industries whose inputs include importable goods and services.

There is another benefit to which Egypt is entitled by virtue of its WTO membership and its status as a developing country, and that is WTO-funded **technical assistance**. However, not only is this conceptually very distinct from the fundamental rights and obligations Egypt has as a WTO member, but its importance varies with the whims of the WTO Budget Committee and the willingness of individual countries to make ad hoc contributions to the WTO technical assistance budget. It is considered briefly at the end of the paper.

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[1] There is a loose analogy with traffic rules. Drivers give up sovereignty over which side of the road to drive on, what to do when they come to an intersection, and so forth, in exchange for the behavior of other drivers and pedestrians becoming much more predictable. As a result, **everyone** gets around town much more efficiently.

I. EGYPT AS AN EXPORTER: PROTECTING AND ENHANCING EGYPT'S ACCESS TO FOREIGN MARKETS

Current: monitoring the trade policy behavior of WTO trading partners

This is a relatively straightforward, ongoing process involving (a) watching for the imposition of WTO-inconsistent policies by trading partners that would reduce the access of an Egyptian good or service to a foreign market, and if necessary invoking the WTO's dispute settlement procedures. There have been no examples under the WTO of Egypt initiating a dispute settlement case because a trading partner imposed illegal restrictions on Egyptian exports.

There is a special arrangement for potential disputes related to the phase-out of the Multifiber Arrangement (MFA), in which the initial complaint of non-compliance is made to the Textiles Monitoring Body (TMB). Egypt has made no complaints to the TMB.

Future: Egypt's goals in the Doha Round

For the next few years, Egypt's trade policy agenda, and that of virtually every other country, will be dominated by the Doha Round of multilateral trade negotiations and the work program agreed to at Doha. As is evident from Annex I below, the package agreed to at Doha is *very* ambitious. I count:

- four principal negotiating groups (three market access, plus TRIPS)
- four groups preparing for future negotiations on the "Singapore issues"
- five other negotiating groups on key issues (e.g., dispute settlement, anti-dumping)
- seven other groups or areas of work (only two of which – "small economies" and "least-developed countries" – seem to be of little or no interest to Egypt)
- fourteen "sections" of negotiations on implementation issues

Even for the big three – the United States, the European Union and Japan – this is a very demanding *and technically complex* work agenda, involving a large number of people both in capital and in the Geneva-based delegation.

For Egypt, as for most of the other 120+ WTO members, the Doha-related workload threatens to be overwhelming. Presumably the only workable strategy is to (a) identify a small number of subjects which are of particular importance to Egypt, and to concentrate the limited amount of available human resources, in Cairo and in Geneva, on those areas, while (b) monitoring, to the extent possible, developments in all the other subject areas. But clearly the former – identifying which areas to focus on – is easier said than done. Simply reviewing, in a serious and analytical way, all of the various subjects on the agenda and evaluating Egypt's interests in each, then ranking those interests, and then deciding which can be actively pursued and which can only be monitored is a major research task.

Keep in mind that, with the exception of the three market access groups (agriculture, services and non-agricultural products), virtually all of the other negotiating or work groups could come up with proposals that would involve new rules and procedures – that is, new rights and obligations for all WTO members, including of course Egypt. Meanwhile, what happens in the three market access groups could be an important factor in the future growth of Egypt's exports of goods and services.

II. EGYPT AS AN IMPORTER: THE IMPACT OF THE WTO ON EGYPT'S OWN TRADE-RELATED POLICIES

Current: implementing and observing existing WTO rules and procedures

As regards the implementation of obligations incurred as a result of the Uruguay Round Agreements, it is my understanding that Egypt has encountered no major delays.

The WTO-consistency of Egypt's trade policies has been formally challenged under WTO dispute settlement procedures twice. One involved a dispute with Turkey over Egypt's imposition of anti-dumping duties on steel rebar, while the other involved Egypt's import prohibition on imports from Thailand of canned tuna with soybean oil. The former is near the end of the panel stage, and the latter is still in the "pending consultation" stage of the WTO's dispute settlement procedures.

Although they have not (yet) been formally challenged by another WTO member, mention should be made of fact that in the WTO Secretariat's 1999 Trade Policy Review of Egypt, the Secretariat noted that in 1998 some 12 percent of the tariff lines had applied rates in excess of the bound rates (page xx, para. 10). Presumably Egypt is able to "get away" with this only because no WTO member has filled a formal complaint (only another WTO member can challenge the WTO-consistency of a country's policies).

Not everyone views the implementation and observance of WTO obligations as a source of benefits for a country. It has been argued, for example, that WTO obligations can interfere with a country's development strategy, or that in some instances implementation of Uruguay Round obligations can be relatively costly (on the latter point see Finger and Schuler 2000, Finger 2001, and Hoekman 2002).

Regarding concerns over possible interference with the country's development strategy, two comments are in order. First, if a WTO member government believes it is important for economic development or for some other reason to grant domestic producers a margin of protection from import competition, they are perfectly free under WTO rules to do so – there is absolutely no obligation to practice free trade or even to agree to reduce existing levels of bound protection (there is even a special provision for infant industry protection). The rules only require that if a country grants protection, that it use tariffs rather than quantitative restrictions (quotas, import licensing).

Second, implementing the Uruguay Round Agreements moves a country in the direction of having a more open, liberal, transparent and stable trade regime – a move that virtually all the empirical evidence suggests is good for economic growth and development. There are other benefits as well – for example, the binding of reform and liberalization commitments in WTO schedules can greatly increase the credibility of those commitments in the eyes of domestic and foreign traders and investors.

<u>Future</u>: Using the new negotiations to advance Egypt's trade policy reforms

The most fundamental principle of negotiations under the GATT and now the WTO is **reciprocity**. This is most evident in the market access negotiations, where countries agree to reciprocal reductions in import barriers, but it also applies in negotiations to revise existing rules and procedures and to extend WTO rules and procedures into new areas (for example, investment and competition polices).

As regards market access negotiations, it is true the most-favored-nation (MFN) principle ensures that all negotiated reductions in import barriers apply to imports from all WTO members, regardless of whether they participated actively or not in the negotiations. But the size of the reductions in barriers – indeed the question of whether there are any reductions at all in import barriers for certain products – may well depend on the active participation of one or more countries with an important export interest in those products. Countries that actively participate in the market access negotiations on those goods and services for which they have an important actual or potential export interest, will be asked by trading partners to make reciprocal reductions in their own import barriers.

Government negotiators often view the need to reduce their own import barriers as a burden (thus the GATT/WTO tradition of describing such reductions a "concessions"). But there is another perspective. In the past two decades most developing countries have come to accept that more open, liberal trade regimes and integration into world markets is an important component of their development strategy. Certainly that seems to be the case with Egypt, where, to quote from the WTO's 1999 Trade Policy Review (p.xix):

> Much progress has been made in reducing trade barriers: most non-tariff measures have been removed and tariff protection has been sharply reduced. ... The removal of export bans and reduced domestic restrictions on pricing and distribution has also reduced the anti-export bias in the economy.

A more recent development pointing in the same direction is Egypt's decision to liberalize *unilaterally and bind in its GATS schedule* basic telecommunications services (the goal presumably being increased foreign direct investment and technology transfer).

At the same time, it is widely acknowledged that there are a number of further liberalizing steps that Egypt could take that would increase economic efficiency and stimulate economic growth. The problem, of course, is that very often government officials working to implement further reforms in the trade regime encounter opposition from domestic groups that are benefiting from the import restrictions, subsidies or other distortions.

This is where participation in reciprocity-based multilateral negotiations can be very helpful in a political economy sense. In essence, trading partners will tell the Egyptian negotiators, "If you want better access to our markets for your exports, you will have to give us better access to the Egyptian market for our exports." This, in turn, creates an opportunity to draw export-oriented Egyptian firms into the political debate over trade policy, and gives them a strong incentive to support proposals to reduce Egyptian import barriers in exchange for improved access abroad for Egyptian exports. This is a source of political support for trade reform and liberalization that exists *only* during a round of multilateral trade negotiations, such as the Doha Round.

Political support and lobbying by export-oriented firms does not, however, appear automatically or spontaneously. It requires active organizing efforts on the part of trade officials and perceptive private sector leaders. Judging from several comments made on the second day of the conference, a lot more could and should be done to mobilize political support among export-oriented Egyptian firms.

Following this line of reasoning, it becomes important for Egyptian trade officials to consider carefully which reductions in import barriers, subsidies and other current distortions (for example, informal bureaucratic restrictions on imports) would contribute most to the ongoing reform of Egypt's trade-related policies, and to try to see – to the extent possible – that it is these reductions that are offered in exchange for improved access abroad for Egypt's exports. This, in fact, may not be too difficult to achieve since there is likely to be a substantial overlap between (a) the Egyptian policies Egyptian officials believe are the most distorting, and (b) the policies trading partners want Egypt to liberalize.

To the extent possible, this exercise – using the Doha negotiations to facilitate the reform of Egyptian trade policies – should be carried out within the framework of a broad "trade policy vision" that identifies more or less precisely the role of trade-related policies in Egypt's development strategy, and how the WTO can reinforce that role.

An important part of such a vision is an awareness that export expansion and import expansion are tightly inter-linked – that they cannot be thought of as two separate policy issues. This is evident from the data in Table 1, which records the experience of six developing countries which adopted more open trade regimes in the second half of the postwar period.

Table 1: Ranking among the leading exporters and importers in world merchandise trade, 1979-2000

Exporters				Importers		
1979	1989	2000		1979	1989	2000
22	12	14	Taiwan	25	16	15
27	11	10	Hong Kong	21	11	9
29	13	12	Korea (Rep)	15	13	13
32	17	15	Singapore	20	17	16
34	14	7	China	24	14	8
37	20	13	Mexico	29	21	11

Source: WTO annual reports.

It is evident from Table 1 that the export and import rankings often do not match exactly. This is not surprising, however, because the table covers only merchandise trade. Other important components of the balance of payments – trade in services, worker remittances, private capital flows and inflows of foreign assistance – can all play a role in explaining differences between a county's merchandise export and import ranking in any given year.

The most striking message in the figures in Table 1 is that countries that liberalize their **import** regime not only move up in the import ranking, but also in the **export** ranking. Consider, for example, Mexico (perhaps the most appropriate country in Table 1 to compare with Egypt). In 1979 (and before joining the GATT), Mexico was the 37th largest exporter of goods. *This relatively low export ranking was not the result of Mexico imposing restrictions on its exports, but rather the result of imposing high restrictions on imports into Mexico.*[2]

As Mexico began to liberalize its import regime – partly as a result of becoming a member of the GATT – the country began moving up the import ranking, from 29th in 1979 to 21st in 1989 and to 11th in 2000. And, at more or less the same pace, Mexico moved up the export ranking, from 37th in 1979 to 20th in 1989 and to 13th in 2000. This was not a coincidence, and a broadly similar story could be told about each of the other five developing countries in the table. Of course exports may respond to import liberalization with a lag – that is, there may be a period when imports expand more rapidly than exports – but such a discrepancy is only temporary.

In short, Table 1 offers convincing real world evidence of why it is important to remember that a tax on imports is a tax on exports, and that an import liberalization strategy is simultaneously an export promotion strategy.

III. A BRIEF LOOK AT TECHNICAL CO-OPERATION AND CAPACITY BUILDING

In contrast to the World Bank, the IMF, the regional development banks and certain other international economic organizations, the WTO's assistance to developing countries involves not a transfer of financial resources, but a system of rules and procedures that together bring rule of law -- replacing rule of the jungle -- to international commercial relations. A modest exception to this generalization is the WTO's technical co-operation and capacity building activities.

The major contributors to the GATT/WTO budgets have traditionally refused to include, as part of the regular budget, adequate funding for technical co-operation. For example, between 1986 and 1999, "there was no increase in [GATT/WTO] staff or budgeted funding for technical co-operation in response to a doubling of the number of countries needing technical assistance" (Blackhurst, Lyakurwa and Oyejide, 2000, p. 505). As a result, the Secretariat has had to depend -- and still depends -- on ad hoc contributions for nearly all of its technical co-operation activities. However, it is also the case that in March 2002 donor governments pledged more than 30 million Swiss francs (more than $18 million) to the Doha Development Agenda Global Trust Fund, double the 2001 figure for technical co-operation and more than three times the 1998 figure.

Exactly how the Secretariat and the member countries will handle these new "riches" remains to be seen. In general it is likely to be spent on WTO technical co-operation

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[2] The mechanism(s) which cause import restrictions to end up restricting exports are not easy to explain in a non-technical way. Professor Harberger, in his presentation to the conference, talked about a linkage through the exchange rate. We can also think of import barriers allowing inefficient import-competing firms to over-expand, thereby "stealing" labour and capital from the export industries. For a full explanation, backed by empirical data, of why "a tax on imports is a tax on exports" see Clements and Sjaastad (1984).

activities carried out both by the WTO alone and in co-operation with the other members of the Integrated Framework for Trade-Related Technical Assistance for Least Developed Countries (World bank, IMF, UNCTAD, UNDP and the ITC), regional banks and member governments. The WTO has also been installing Reference Centres in developing countries (where government officials can access documents from the WTO web site), as well as expanding the training courses offered in Geneva to younger government officials from developing and transition economies (increased funding is expected to allow and increase from around 100 officials a year to 300 in 2002).

Egypt, presumably, can expect to benefit from the increased funds available to the WTO for technical co-operation and capacity building. However, it is also the case that increasingly the focus of technical assistance by the WTO and other international economic organizations is on the least developed countries rather than on developing countries in general.

Regardless of the extent of Egypt's access to WTO technical assistance funds, it is clear that capacity building – training officials for the delegation in Geneva and to provide the crucially needed back-up support in Cairo – is a key element in enhancing Egypt's ability to function effectively in the WTO. Here it is important to keep in mind that – in contrast to the World Bank, the IMF and many other international economic organizations – the WTO is a "member-driven" organization. It is the individual national delegates in Geneva, not the WTO Secretariat, that carry out the substantive work and make the decisions.

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ANNEX I: Work agreed to at Doha

Most of the following involve negotiations; other work includes actions under "implementation", analysis and monitoring:

- Agriculture negotiations
- Services negotiations
- Market access for non-agricultural products negotiations
- Trade-related aspects of intellectual property rights (TRIPS) negotiations and other work

- Relationship between trade and investment, preparations for negotiations
- Interaction between trade and competition policy, preparations for negotiations
- Transparency in government procurement, preparations for negotiations
- Trade facilitation, preparations for negotiations

- WTO rules: anti-dumping negotiations
- WTO rules: subsidies negotiations
- WTO rules: regional trade agreements negotiations
- Dispute Settlement Understanding negotiations
- Trade and environment negotiations and other work

- Electronic commerce, General Council work
- Small economies, General Council work
- Trade, debt and finance, new working group
- Trade and transfer of technology, new working group
- Technical cooperation and capacity building, General Council and Secretariat work
- Least-developed countries, work in various bodies
- Special and differential treatment, work in various bodies

The implementation decision

Around 100 implementation issues were raised in the lead-up to the Doha Ministerial Conference. The implementation decision, combined with paragraph 12 of the main Doha Declaration, provides a two-track solution. More than 40 items under 12 headings were settled at or before the Doha conference, for immediate delivery; and the vast majority of the remaining items are immediately the subject of negotiations:

The implementation programme

The implementation decision contains 12 subject headings and two catch-all headings for outstanding issues and final provisions. The subject headings cover the over 40 items settled at or before the Doha conference, for immediate delivery. Most outstanding issues are immediately the subject of negotiations:

- General Agreement on Tariffs and Trade (GATT)
- Agriculture

- Sanitary and phytosanitary (SPS) measures
- Textiles and clothing
- Technical barriers to trade
- Trade-related investment measures (TRIMS)
- Anti-dumping (GATT Article VI)
- Customs valuation (GATT Article VII)
- Rules of origin
- Subsidies and countervailing measures
- Trade-related aspects of intellectual property rights (TRIPS)
- Cross-cutting issues
- Outstanding implementation issues
- Final provisions

Source: All of the material in this Annex is taken directly (with slight editing) from the WTO web site.