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## Current State of Trade and Investment Relations

US-Egypt merchandise trade totaled \$8.4 billion in 2008. The value of US exports to Egypt has grown at an average annual rate of 8 percent per year since 2000. US imports from Egypt have grown by 12 percent per year over this period, increasing in value from under \$1 billion in 2000 to \$2.4 billion in 2008; however, the value of US imports from Egypt has not grown much since 2006. This is in direct contrast to US exports to Egypt, which have benefited from recent high commodity prices. Throughout the past decade, the United States has recorded a sizeable trade surplus with Egypt, which has significantly increased since 2006 (figure 2.1).

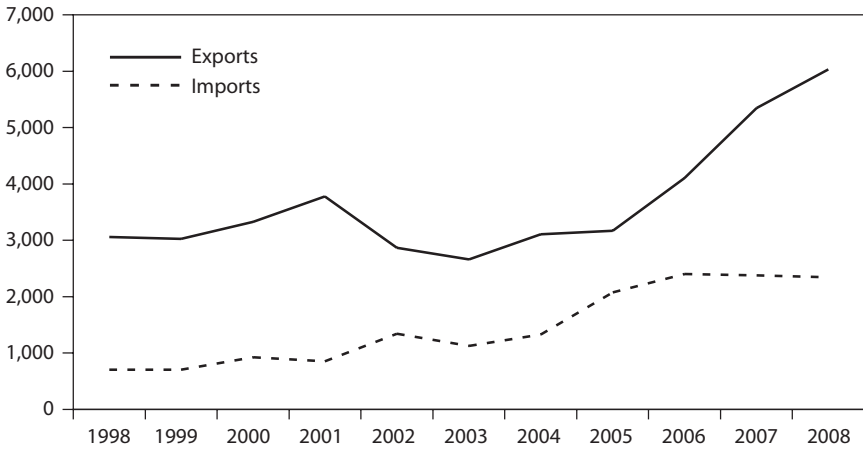
US investors at end 2008 had placed \$8.8 billion in Egypt, up from \$7 billion in 2007, primarily in the petroleum sector. The United States and Egypt signed a bilateral investment treaty (BIT) back in 1982, which entered into force ten years later, but it has not yet fulfilled the promise of spurring substantial flows of FDI into Egypt. Chapter 3 offers recommendations for augmenting the BIT.

In 2008 Egypt was the destination for 9 percent of US exports and almost a fifth of US foreign direct investment (FDI) to the Middle East and North Africa (MENA) region (table 2.1). It ranked third after Israel and Qatar as a destination of US FDI and fourth as an export market in the MENA region. Egypt's share of US MENA imports was quite small (about 2 percent) due to large US oil purchases from Saudi Arabia, Algeria, Kuwait, and Libya; it ranked sixth as a source of imports in the MENA region in 2008.

This chapter examines the evolution of the US-Egypt commercial relationship. We evaluate recent steps taken to enhance this relationship and

**Figure 2.1 US exports to and imports from Egypt, 1998–2008**

millions of US dollars



Source: US International Trade Commission (USITC) Interactive Tariff and Trade Dataweb, <http://dataweb.usitc.gov>.

assess the challenges and opportunities for expanding trade and investment ties going forward.

### **Evolution of US-Egypt Trade Initiatives: From Aid to Trade?**

In the late 20th century, US-Egypt economic relations were defined primarily by US bilateral aid to Egypt. The United States granted significant economic aid in recognition of Egypt’s prominent role in the Middle East peace process and to offset the economic effects of Egypt’s subsequent isolation by other Arab states. Since 1979, the United States has invested over \$2 billion a year in economic and military aid to Egypt (USAID 2009). The relationship remains significant today: Until 1999 Egypt was second only to Israel in terms of US aid, with Egypt’s tranche of US assistance exceeding total aid to Latin America and the Caribbean, Sub-Saharan Africa, and Europe added together. While aid to Egypt has declined in both absolute and relative terms, in 2007 Egypt was still the third largest recipient of US Economic Support Fund (ESF) assistance, following Iraq and Afghanistan (USAID 2009).

Over time, pressure has mounted in both countries to decrease the role of aid and to transition from economic assistance to economic partnership. Beginning in 1998, the United States initiated reductions in its annual allotments of economic aid to both Egypt and Israel, cutting Egypt-

**Table 2.1 US trade and investment with MENA countries, 2008**

Country	US exports			US imports			US FDI stock (historical-cost basis)		
	Millions of dollars	Percent of MENA	Rank	Millions of dollars	Percent of MENA	Rank	Millions of dollars	Percent of MENA	Rank
Algeria	1,243	2	10	19,355	17	3	5,207	11	5
Bahrain	830	1	12	539	0	12	18	0	13
Djibouti	141	0	19	7	0	19	(*)	n.a.	n.a.
<b>Egypt</b>	<b>6,031</b>	<b>9</b>	<b>4</b>	<b>2,371</b>	<b>2</b>	<b>6</b>	<b>8,771</b>	<b>19</b>	<b>3</b>
Iran	683	1	14	102	0	15	1	0	14
Israel	14,486	22	2	22,334	19	2	10,153	22	1
Jordan	940	1	11	1,139	1	8	121	0	12
Kuwait	2,719	4	6	7,093	6	4	1,459	3	7
Lebanon	1,463	2	8	99	0	16	211	0	11
Libya	721	1	13	4,179	4	5	(D)	(D)	n.a.
Mauritania	107	0	20	46	0	17	-3	0	15
Morocco	1,519	2	7	879	1	9	252	1	10
Oman	1,415	2	9	852	1	10	(D)	(D)	n.a.
Qatar	3,077	5	5	484	0	13	9,158	20	2
Saudi Arabia	12,478	19	3	54,786	47	1	5,382	12	4
Sudan	143	0	18	5	0	20	n.a.	n.a.	n.a.
Tunisia	503	1	15	644	1	11	267	1	9
United Arab Emirates	15,749	24	1	1,294	1	7	3,423	8	6
Yemen	401	1	12	8	0	18	862	2	8
MENA total	65,059			116,567			45,282		
World total	1,300,136			2,100,141			2,791,269		

FDI = foreign direct investment

MENA = Middle East and North Africa

(D) = data have been suppressed to avoid disclosure of data of individual companies.

n.a. = not available; (\*) indicates a non-zero value between -\$500,000 and +\$500,000, or fewer than 50 employees.

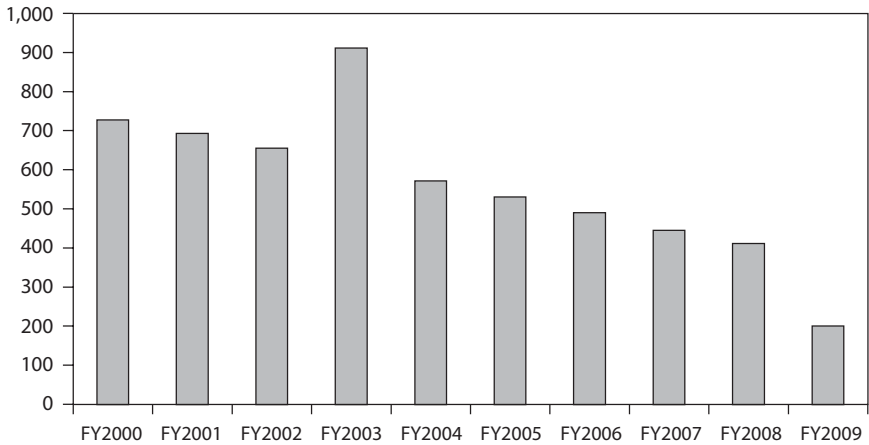
Sources: US International Trade Commission Interactive Tariff and Trade Dataweb, <http://dataweb.usitc.gov>; US Department of Commerce, Bureau of Economic Analysis, [www.bea.gov](http://www.bea.gov).

tian aid by about \$40 million per year. Figure 2.2 charts the significant decline of US economic aid to Egypt: In FY2003 Egypt received \$911 million, nearly 20 percent of US economic assistance; the FY2009 commitment of \$200 million represents only 7 percent of total ESF assistance. This has implications for the Egyptian economy: In 1998 aid per person totaled \$30. The FY2009 US per capita aid allotment is less than \$3 per Egyptian.

Over the past decades, Egypt and the United States have embarked upon several initiatives designed to enhance their trade and investment ties. Early steps toward formalizing the US-Egypt commercial relationship came with the signing of a bilateral investment treaty in 1982. Egypt was the first country to sign a BIT under the US BIT program, which was

**Figure 2.2 US economic assistance to Egypt, FY2000–FY2009**

millions of US dollars



Source: US Department of State, International Affairs (Function 150) Budget Request documents, 1999–2009.

initiated in 1981 to encourage and protect US investment in developing countries.<sup>1</sup> The BIT ultimately entered into force on June 27, 1992.<sup>2</sup>

In 1994 Egyptian President Hosni Mubarak and US Vice President Al Gore established the US-Egypt Partnership for Economic Growth and Development—a cooperative effort aimed at enhancing economic relations and encouraging Egypt’s incipient economic reforms. Each country established joint private-sector Presidents’ Councils. Participants on the US side were mainly from the oil, telecommunications, and pharmaceutical industries; Egyptian participants included representatives from the banking, food, and textile sectors. These councils were later restructured to become the US-Egypt Business Council.

In June 1999 the two countries signed a trade and investment framework agreement (TIFA). The agreement established a TIFA Council to facilitate the discussion of bilateral trade and investment issues.<sup>3</sup> US Trade

1. Investment Treaty with Egypt, Message from the President of the United States, Letter of Transmittal to the Senate of the United States, June 2, 1986, White House, available at [www.state.gov](http://www.state.gov) (accessed on October 28, 2009).

2. The original BIT was subject to additional modifications that were included through an exchange of letters signed on March 11, 1985 and a supplemental protocol, signed March 11, 1986.

3. In addition to Egypt, the United States has signed TIFAs with a number of other Middle Eastern trading partners: Afghanistan (2004), Algeria (2001), Bahrain (2001), Jordan (2003), Kuwait (2004), Lebanon (2006), Morocco (1991), Qatar (2004), Saudi Arabia (2003), Tunisia (2002), United Arab Emirates (2004), and Yemen (2004). Egypt also participates in the

Representative (USTR) Charlene Barshefsky stated later that year that “entering into a TIFA with Egypt marked the first step toward creating freer trade between our two countries, and established the basis for stronger economic ties to bolster our joint efforts at further peace in the region.”<sup>4</sup> To date the TIFA Council has met only four times: once each in 1999 and 2002 and twice in 2005.<sup>5</sup>

Momentum toward a US-Egypt FTA seemed to pick up in May 2003 when the George W. Bush administration proposed the establishment of a US-Middle East Free Trade Area (MEFTA). As part of this initiative, the United States has implemented FTAs with Bahrain, Morocco, and Oman, and in March 2005 initiated negotiations with the United Arab Emirates. These pacts supplement FTAs already in force with Israel (1985) and Jordan (2001). Egypt already is a party to trade agreements with all potential MEFTA partners (table 2.2) and it would be difficult to conceive of a MEFTA without Egypt, the most populous country in the Arab world.

The MEFTA initiative failed to galvanize US-Egypt trade talks: US reactions to haphazard progress on political and economic reforms in Egypt kept formal US-Egypt negotiations on a back burner. Differences regarding democracy and human rights undercut efforts to build political support for a bilateral FTA.<sup>6</sup> Trade disputes also contributed to the sporadic progress in bilateral trade talks.<sup>7</sup> In addition, the fractious US trade policy debate in the United States and the expiration of US trade promotion au-

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US-COMESA TIFA signed in October 2001. The US-Bahrain TIFA was superseded by the US-Bahrain FTA, signed in 2004. In the Middle East, the United States has signed FTAs with Israel (1985), Jordan (2000), and Morocco (2004).

4. Office of the United States Trade Representative, “US and Egypt Inaugural Trade and Investment Agreement,” press release 99-96, Washington, November 18, 1999.

5. See Egyptian Ministry of Trade and Industry, *Egypt-USA Trade and Investment Framework Agreement (TIFA)*, [www.mfti.gov.eg](http://www.mfti.gov.eg) (accessed on August 9, 2009).

6. In September 2007 the United States raised concerns about a number of court cases against journalists and closures of human rights NGOs. Egypt’s foreign minister claimed “unacceptable interference” (Ian Pannell, “Egypt Angry at US Rights Comment,” BBC News, Cairo, September 26, 2007).

7. In May 2003 the bilateral relationship came under strain when Egypt, which had originally agreed to support the United States in a WTO case regarding GMOs against the European Union, reversed its position, reluctant to alienate its largest trading partner. In the wake of this development, USTR enthusiasm toward negotiating a free trade agreement with Egypt noticeably waned. In December 2003 the United States filed a formal WTO request for consultations with Egypt concerning import duties on certain apparel and textile products. Egypt lowered these tariffs in January 2004 and in May 2005 the United States notified the WTO that a mutually agreed solution had been reached. The United States alleged that Egypt’s per garment duty charges effectively created tariff rates ranging from 141 percent to over 51,000 percent, which significantly exceeded Egypt’s bound rates. In January 2004 Egypt lowered its tariffs to 40 percent on imports of apparel, 12 percent on yarns, 22 percent on all kinds of fabrics and 35 percent on imports of home textiles (USTR 2003 and World Trade Organization, August 20, 2007).

**Table 2.2 US and Egyptian trade relations with MENA countries**

Country	United States	Egypt
Algeria	GSP	GAFTA signatory
Bahrain	FTA, TIFA, BIT	GAFTA
Djibouti	GSP	GAFTA signatory
Iran		
Iraq	GSP	GAFTA
Israel	FTA, TIFA, BIT	QIZ
Jordan	FTA, TIFA, BIT, GSP	FTA (Agadir), GAFTA
Kuwait	TIFA, GSP	GAFTA
Lebanon	GSP	GAFTA
Libya		GAFTA
Mauritania	GSP	GAFTA signatory
Morocco	FTA, TIFA, BIT, GSP	FTA (Agadir), GAFTA
Oman	FTA, TIFA, BIT, GSP	GAFTA
Palestinian Authority	Participates in Israel FTA	GAFTA
Qatar	TIFA	GAFTA
Saudi Arabia	TIFA, BIT, GSP	GAFTA
Sudan		GAFTA
Syria		GAFTA
Tunisia	TIFA, BIT, GSP	FTA (Agadir), GAFTA
United Arab Emirates	TIFA	GAFTA
Yemen	TIFA, GSP	GAFTA

FTA = free trade agreement

BIT = bilateral investment treaty

TIFA = trade and investment framework agreement

QIZ = qualifying industrial zone

GSP = Generalized System of Preferences

Note: The Greater Arab Free Trade Area (GAFTA) encompasses all members of the Arab League. Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Palestinian Authority, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tunisia, United Arab Emirates, and Yemen are members. Others are in the process of joining.

Sources: Egypt Ministry of Trade and Industry, [www.mfti.gov.eg](http://www.mfti.gov.eg); US Trade Representative, [www.ustr.gov](http://www.ustr.gov).

thority (TPA) at the end of June 2007 have made it increasingly difficult for the United States to negotiate new trade deals.

In January 2009 the new administration of Barack Obama took office. The Obama administration has taken several positive steps toward reforming Middle East policy and enhancing ties with Egypt. In the week after taking office, President Obama appointed George Mitchell as special envoy to the Middle East and delivered a major policy speech at Cairo University in June 2009. With respect to Egypt, USTR Ron Kirk and Egyptian Minister of Trade and Industry Rachid Mohamed Rachid signed a US-Egypt Plan for a Strategic Partnership aimed at broadening and

deepening trade and investment relations. In November 2009 the two parties agreed to a one-year plan to put this partnership in motion.

## Expanded Market Access: GSP and QIZ Programs

Egypt has enjoyed some measure of preferential access to the US market since 1975, through the US Generalized System of Preferences (GSP) program. Table 2.3 lists the top 25 goods imported from Egypt under the GSP program in 2008. Total GSP goods were worth about \$60 million out of \$2.4 billion total exports to the United States and include foodstuffs, stone and marble works, lamps, and pens. Many of Egypt's most important nonoil export goods, notably textiles, are excluded from the GSP program.<sup>8</sup> The exclusion of important Egyptian exports such as apparel, leather goods, and ceramics limits Egypt's GSP utilization as do some factors associated with business competitiveness.<sup>9</sup>

As seen in figure 2.3, GSP products constitute a low percentage of US imports from Egypt: an average of 2.7 percent in the 2000s (down from a high of 8.2 percent in 1997). This compares unfavorably with several of Egypt's competitors: 14 percent of Indonesia's exports to the United States enter under the GSP. The ratio is 18.5 percent for India and Turkey, and 40 percent for both Lebanon and the West Bank. Jordan, whose FTA with the United States went into effect in 2001, recorded a 14 percent GSP ratio the year before its FTA went into effect.

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8. The US GSP program, which allows preferential trade treatment for about 3,400 products from developing countries, was instituted on January 1, 1976 and extended for ten years under the 1974 Trade Act. Since then, the program has been periodically renewed and is currently authorized through December 31, 2009. Egypt's GSP coverage is enhanced by a certified handicraft textile arrangement, which covers certain textile items, including hand-loomed and folklore wall hangings (HTS 6304.99.10) and hand-loomed and folklore pillow covers (HTS 6304.99.40). The other beneficiaries of this agreement are Afghanistan, Argentina, Botswana, Cambodia, Colombia, Jordan, Nepal, Pakistan, Paraguay, Peru, Thailand, Tunisia, Turkey, and Uruguay (USTR 2008). The GSP excludes textiles produced with cotton, wool, man-made fiber, and other vegetable fiber, as well as watches, certain footwear and handbags, luggage, flat goods not made of silk, work gloves, and other leather items.

9. One official attributes the low level of GSP utilization to slow and inefficient data collection and exporters' reluctance to provide information on production and labor costs and profitability as required in order to qualify for GSP treatment (Waleed El Nozahy, Opportunities Through GSP: Is Egypt Missing Out? Presentation at the TRAC Conference on Opportunities through the Generalized System of Preferences (GSP), November 3, 2008, available at [www.egypttrade.org/trac](http://www.egypttrade.org/trac)). Marideth Sandler suggests that there is some room for improving awareness of the GSP program or improving administrative procedures, showing that some Egyptian exporters sell GSP-eligible goods in the US market without taking advantage of the duty-free access. In 2007, 10 percent of GSP-eligible exports were charged duty unnecessarily, resulting in excess import charges of about \$250,000. See Marideth Sandler, Expanding Egypt's Export Opportunities through GSP, presentation at the TRAC Conference on Opportunities through the Generalized System of Preferences (GSP), November 3, 2008, available at [www.ustr.gov](http://www.ustr.gov) (accessed on August 9, 2009).

**Table 2.3 Top 25 US imports from Egypt entering under the GSP program in 2008**

<b>Rank</b>	<b>HS 8-digit code</b>	<b>Description</b>	<b>Millions of dollars</b>	<b>US most favored nation duty rate (percent, unless otherwise specified)</b>
1	7606.12.30	Aluminum alloy, plates/sheets/strip, with thickness over 0.2mm, rectangular (including square), not clad	16.3	3.0
2	6802.91.15	Monumental or building stone & articles thereof (other than slabs), of marble, further worked than simply cut/sawn, nesoi	4.3	4.9
3	2009.80.60	Juice of any other single fruit, nesoi (including cherries and berries), concentrated or not concentrated	3.3	2.2
4	2202.90.90	Nonalcoholic beverages, nesoi, not including fruit or vegetable juices of heading 2009	3.1	0.2¢/liter
5	9405.91.60	Parts of lamps, lighting fixtures, illuminated signs & the like, of glass nesoi	2.8	4.5
6	6802.92.00	Monumental or building stone & articles thereof, of calcareous stone, nesoi, further worked than simply cut/sawn, nesoi	2.6	4.9
7	3922.10.00	Baths, shower baths and washbasins, of plastics	2.2	6.3
8	6802.91.05	Marble slabs, further worked than simply cut/sawn	1.9	2.5
9	2005.70.25	Olives, green, in a saline solution, pitted or stuffed, not place packed	1.1	8.6¢/kg on drained weight
10	0712.90.65	Dried parsley nesoi, whole, cut, sliced, broken or in powder, but not further prepared	1.1	3.8
11	0710.80.70	Vegetables nesoi, uncooked or cooked by steaming or boiling in water, frozen, not reduced in size	0.9	11.3
12	2104.10.00	Soups and broths and preparations thereof	0.9	3.2
13	9608.10.00	Pens, with ball point	0.8	0.8¢ each + 5.4%

*(continued)*

**Table 2.3 Top 25 US imports from Egypt entering under the GSP program in 2008 (continued)**

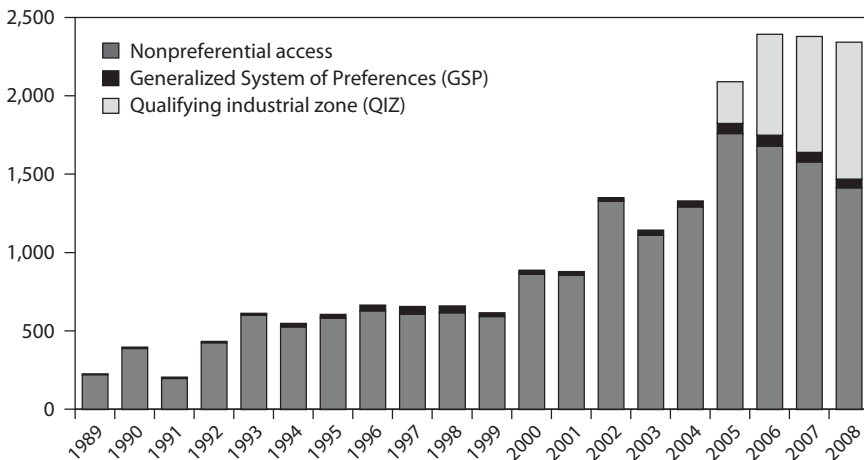
Rank	HS 8-digit code	Description	Millions of dollars	US most favored nation duty rate (percent, unless otherwise specified)
14	1509.10.40	Virgin olive oil and its fractions, whether or not refined, not chemically modified, weighing with the immediate container 18 kg or over	0.8	3.4¢/kg
15	2005.70.75	Olives (not green), in a saline solution not canned, nesoi	0.8	4.3¢/kg on drained weight
16	7019.90.50	Glass fibers (including glass wool), nesoi, and articles thereof, nesoi	0.8	4.3
17	3925.90.00	Builders' ware of plastics, nesoi	0.6	5.3
18	2007.99.10	Strawberry jam	0.5	6.4
19	6802.21.50	Monumental or building stone & articles thereof, of marble & alabaster, simply cut/sawn, with flat or even surface	0.5	1.9
20	2106.90.82	Food preparations, nesoi, other than 10 percent milk solids, nesoi	0.4	6.4
21	0712.90.85	Dried vegetables nesoi, and mixtures of dried vegetables, whole, cut, sliced, broken or in powder, but not further prepared	0.4	8.3
22	2005.70.12	Olives, green, not pitted, in saline, not ripe	0.4	3.7¢/kg on drained weight
23	7113.19.50	Precious metal (other than silver) articles of jewelry and parts thereof, whether or not plated or clad with precious metal, nesoi	0.4	5.5
24	8544.30.00	Insulated ignition wiring sets and other wiring sets of a kind used in vehicles, aircraft or ships	0.4	5.0
25	0710.80.93	Okra, reduced in size, frozen	0.4	14.9
		Subtotal of top 25 GSP items	47.6	
		Subtotal of all GSP items	57.8	
		Total imports from Egypt	2,380.0	
		GSP items as a percent of total imports from Egypt	2.0	

GSP = Generalized System of Preferences  
 nesoi = not elsewhere specified or included

Sources: US International Trade Commission Interactive Tariff and Trade Dataweb, <http://dataweb.usitc.gov>; Harmonized Tariff Schedule of the United States, 2008, Revision 2.

**Figure 2.3 US imports from Egypt: Role of GSP and QIZs, 1989–2008**

millions of US dollars



Source: US International Trade Commission (USITC) Interactive Tariff and Trade Dataweb, <http://dataweb.usitc.gov>.

Egypt's access to the US market was expanded in December 2004 through the qualifying industrial zones (QIZ) program (box 2.1). Under the QIZ program Egyptian goods that are manufactured with Israeli content are allowed to enter duty free into the US market.<sup>10</sup> The QIZ applies to all goods produced in specially designated industrial zones, thus expanding duty-free coverage to the textile sector. To qualify, goods must meet a minimum 35 percent content requirement, at least one-third (11.7 percent) of which must be sourced from Egypt and one-third from Israel. In 2007 the Israeli content requirement was lowered to 10.5 percent. Three initial QIZs were approved: the Greater Cairo QIZ, the Alexandria QIZ, and the Suez Canal Zone QIZ. The USTR approved another, the Central Delta QIZ, in 2005. Two new QIZs were added in January 2009: the Beni Suef Zone and Al Minya Zone in Upper Egypt.<sup>11</sup>

10. The QIZ agreement is the Protocol between the Government of the Arab Republic of Egypt and the Government of the State of Israel on Qualifying Industrial Zones. Egyptian goods made with Israeli content are allowed to enter the United States duty free through the 1996 West Bank and Gaza Strip Free Trade Benefits Act (PL 104-234), which amended and extended the US-Israel Free Trade Area Implementation Act to permit certain products—from designated QIZs in the Gaza Strip, Jordan, and Egypt—to enter the United States duty free (S. Rept. 104-270, 3).

11. Office of the US Trade Representative, Joint Statement of US Trade Representative Ron Kirk and Egyptian Minister of Trade and Industry Rachid Mohamed Rachid, May 27, 2009, [www.ustr.gov](http://www.ustr.gov).

### **Box 2.1 The qualifying industrial zones (QIZ) program: Jordan's experience**

The QIZ program originated in the mid-1990s with the 1996 West Bank and Gaza Strip Free Trade Benefits Act (PL104-234), which amended and extended the US-Israel Free Trade Area Implementation Act to support the Middle East peace process, aiming to help stimulate and diversify the economies of Jordan and Egypt, the two Arab countries that had signed peace treaties with Israel.<sup>1</sup> Under the QIZ program, goods produced in designated industrial parks in the West Bank, Gaza Strip, Jordan, and Egypt that meet specified content requirements (including Israeli inputs) are allowed to enter into the United States duty free. To qualify for these preferences, the good must be “substantially transformed” and must have at least 35 percent of its value added in the QIZ factories.

Jordan negotiated a QIZ agreement in 1998; the US trade representative (USTR) designated the first QIZ, the Al-Hassan Industrial Estate in the city of Irbid, on March 6, 1998. Subsequently, 13 QIZs were added. To qualify, products were required to contain 11.7 percent Jordanian content and 8 percent Israeli content, with the remainder of the 35 percent value to be added by content from a Jordanian QIZ, Israel, the West Bank/Gaza, or the United States. Jordanian QIZs concentrated mostly on textiles and apparel and luggage production.

Shortly after the QIZ agreement was implemented, in 2000, the United States and Jordan signed a free trade agreement (FTA), which entered into force in December 2001. US imports from Jordan increased from about \$26 million in 1996 to over \$1.3 billion in 2007, an average annual rate of growth of 63 percent. The Jordanian ambassador to the United States estimates that the US-Jordan QIZ, followed by the FTA, created 40,000 new jobs, many of them held by women.<sup>2</sup> Various foreign investors, including from China, Pakistan, and other Arab countries, have invested in QIZs. By 2002, 90 percent of all Jordanian shipments to the United States entered under the QIZ program, and QIZ imports grew over 100 percent per year, compared with the 63 percent growth rate of overall Jordanian imports.

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1. “Proclamation 6955—To Provide Duty-Free Treatment to Products of the West Bank and the Gaza Strip and Qualifying Industrial Zones,” *Federal Register* 61, no. 223 (November 18, 2006): 58761–65.

2. Phillip Kurata, “Egypt, US Consider Opening Free Trade Talks in 2005: Egypt’s Envoy to the United States Says Reforms Needed to Raise Growth,” Washington File, January 14, 2005.

In addition to ensuring duty-free access for previously excluded textile goods, the QIZ was seen as a step toward broader free trade with the United States. A similar program between Jordan and Israel preceded the US-Jordan FTA (box 2.1).<sup>12</sup> In his remarks at the signing ceremony for

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12. Jordan signed a QIZ with Israel in 1999, and Jordan and the United States subsequently negotiated an FTA that was approved in 2001.

the QIZ agreement with the United States, Egypt's Minister of Foreign Trade and Industry Rachid Mohamed Rachid stated that "We have high hopes that this arrangement will contribute to economic prosperity in the region. Indicators for success are very promising. No less important is the fact that the signing of this protocol today will help us start negotiating with our U.S. counterparts for a free trade agreement."<sup>13</sup>

The QIZ program significantly extends Egypt's preferential access to the US market. Figure 2.3 illustrates the relative magnitude of the GSP and the QIZ in total US imports from Egypt. Egypt's QIZ export growth has far outpaced growth of Egypt's total exports to the United States, with QIZ exports growing at an average annual rate of 58 percent from 2005 to 2008—more than ten times the growth rate of total exports to the United States. In the first year of the program, QIZ exports made up 13 percent of total Egyptian exports to the United States but grew to represent over 30 percent of exports in 2008. Combining goods entering the United States under the GSP and under the QIZ, 15 percent of Egyptian goods entered the US market duty free in 2005 and nearly 40 percent were exempt from tariffs in 2008.

As seen in table 2.4, textiles and apparel is Egypt's main export under the QIZ. The duty-free treatment of this sector has added to the growth of Egypt's exports to the United States. In 2007 this category represented 99 percent of all US imports from Egyptian QIZs; in 2008 this share had fallen to 89 percent, largely due to a rise in the value of mineral fuels.

Companies located in QIZs can produce any good, provided they use the specified amount of Israeli and Egyptian content. In practice, Egyptian QIZs were established to expand the low-capital and high-labor intensive textile and apparel industry, with an aim to absorb some of Egypt's young and plentiful workforce. Egypt's low-cost labor and geographical proximity to the European Union provide an advantage in exporting textiles—even over lower-cost producers such as China and other Asian countries.<sup>14</sup> However, the expiration of Multi-Fiber Arrangement (MFA) quotas at the end of 2004, which allowed for greatly increased competition from countries such as China, India, and Bangladesh—as well as Jordan's implementation of its QIZ program in 1999—challenged Egypt's competitive position.<sup>15</sup> The QIZ has helped Egypt maintain a relatively competitive

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13. Remarks After Signing of the Qualified Industrial Zone Agreement by Rachid Mohamed Rachid, Minister of Foreign Trade and Industry, Egypt; Ehud Olmert, Deputy Prime Minister and Minister of Trade, Israel; and Robert B. Zoellick, United States Trade Representative, December 14, 2004, available at [www.ustr.gov](http://www.ustr.gov).

14. Dan Magder (2005) explores this point in depth.

15. The Multi-Fiber Arrangement, also known as the Agreement on Textile and Clothing (ATC), governed world trade in textiles and apparel from 1974 through the end of 2004. Under the MFA, quotas were imposed on developing-country exports to developed countries. It expired on January 1, 2005.

**Table 2.4 US imports from Egypt: QIZ and total imports, 2005–08**  
(millions of US dollars)

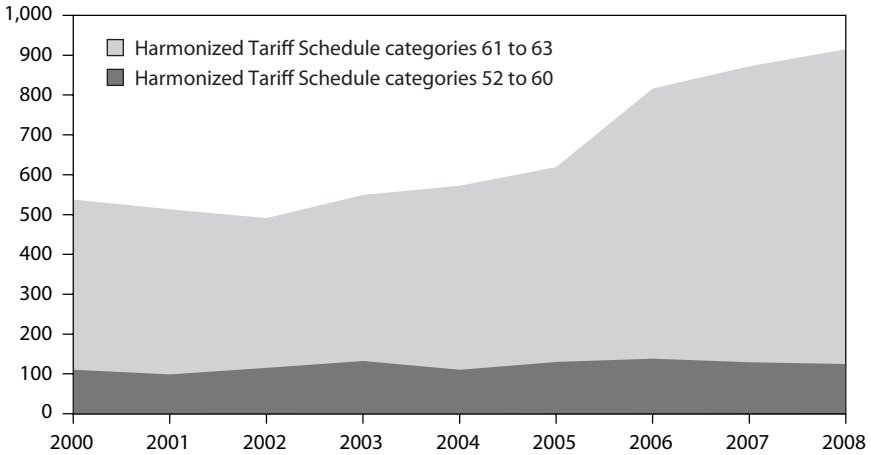
HTS 2-digit code	Commodity	Imports			
		2005	2006	2007	2008
62	Articles of apparel and clothing accessories, not knitted or crocheted	134	339	393	420
61	Articles of apparel and clothing accessories, knitted or crocheted	105	251	285	302
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	12	0	0	90
63	Made-up textile articles nesoi; needlecraft sets; worn clothing and worn textile articles; rags	12	34	42	43
57	Carpets and other textile floor coverings	0	1	3	5
52	Cotton, including yarns and woven fabrics thereof	1	3	5	4
7	Edible vegetables and certain roots and tubers	1	2	3	3
54	Man-made filaments, including yarns and woven fabrics thereof	0	2	2	1
60	Knitted or crocheted fabrics	0	0	1	1
20	Preparations of vegetables, fruit, nuts or other parts of plants	0	0	0	1
94	Furniture; bedding, cushions etc.; lamps and lighting fittings nesoi; illuminated signs, nameplates and the like; prefabricated buildings	0	0	1	1
	Subtotal: Textiles	252	628	729	775
	Subtotal QIZ	266	643	740	874
	Textiles as a percent of QIZ imports	95	98	99	89
	Total	2,076	2,404	2,380	2,380
	QIZ as a percent of total imports	13	27	31	37

QIZ = qualifying industrial zone

Source: US International Trade Commission Interactive Tariff and Trade Dataweb, <http://dataweb.usitc.gov>.

**Figure 2.4 US textile and apparel imports from Egypt, 2000–08**

millions of US dollars



Note: HTS 52 to 60 comprise yarns and woven fabrics of silk, cotton, wool, vegetable fibers, man-made fibers and filaments, carpets and floor coverings, etc.; HTS 61 to 63 comprise articles of apparel and clothing accessories, knitted or crocheted or not, and various textile products.

Source: US International Trade Commission (USITC) Interactive Tariff and Trade Dataweb, <http://dataweb.usitc.gov>.

position in the international textile and apparel market. A member of the Egyptian textile industry estimates that without the QIZ agreement, more than half of Egypt’s textile factories would have had to close down after 2005.<sup>16</sup> Instead, in 2005, 406 new textile companies were created.<sup>17</sup> Exports of textiles and apparel grew by an average of 1.9 percent per year from 2000 to 2004. The average annual growth rate jumped to 13.5 percent from 2005 to 2008, with goods in ready-made garments (HS categories 61 and 62) driving this growth. This evolution is shown in figure 2.4.

In addition to Egyptian producers, foreign clothing and textile firms from Turkey, India, China, and Taiwan with investments in Egypt are operating under the QIZ, taking advantage of Egypt’s access to the US market. Anecdotal evidence indicates that this access to the US market has spurred firms to upgrade technology and to become more competitive. Employment has grown, though some bottlenecks remain—particularly due to the lack of sufficient high-skilled labor.

16. Magdi Tolba, chairman of the Readymade Garments Exports Council, quoted in Andrew England, “Trade Deal with the US and Israel Boosts Textiles,” *Financial Times*, December 10, 2007, 6.

17. World Bank Social and Economic Development Sector Unit, Middle East and North Africa Region, *Morocco, Tunisia, Egypt and Jordan after the End of the Multi-Fiber Arrangement*, December 2006.

The growth of QIZ exports, particularly apparel, outperforms otherwise sluggish export growth. US imports of Egyptian goods have grown by only 4 percent per year since 2005. These (shown in table 2.5) are dominated by oil, natural gas, and clothing. Liquefied natural gas (LNG)—which has constituted between 20 and 35 percent of Egypt’s sales to the United States since the country’s first LNG export terminal began operation in January 2005—and other petroleum products accounted for more than half of US imports of Egyptian goods (except in 2008 due to the sharp drop in oil prices in the second half of the year).

Table 2.5, which lists the top 20 US imports from Egypt (at the 8-digit HS level), shows that, with the QIZ, Egyptian exporters face relatively few tariff barriers in the US market. Of the top exports, a bundle that comprises 81 percent of total Egyptian exports to the United States, 53 percent enter under zero MFN tariffs. Most items that face high MFN tariffs are in the textile and apparel sector (tariffs range from 6 to 32 percent), but these products can enter duty free under the QIZ program (and largely did so: the last column in table 2.5 indicates that between 94 and 98 percent of items in high-MFN tariff, QIZ-eligible categories entered under the QIZ in 2008). Including the goods entering under the QIZ program, 63 percent of Egypt’s goods entered the US market duty free in 2008. Goods that would otherwise face tariffs of 16 percent or higher were overwhelmingly exported under the QIZ program. Table 2.5 also points out a correlation between goods that make intensive use of the QIZ preferences (95 percent or more of goods exported entering under the QIZ program) and those that show high rates of growth for the period 2005–08.

## **Egypt’s Market Reforms: Enhancing Access and Bolstering Competitiveness**

One factor cited as an impediment to launching a US-Egypt FTA—Egypt’s slow progress on trade reforms—has largely been overcome. Since 2004, Egypt’s economic cabinet has initiated a series of far-reaching economic reforms that opened the economy to trade and investment. The 2004 reforms represent a significant shift for Egypt: Shortly after they were enacted, Minister of Foreign Trade and Industry Rachid contrasted them with past policy: “[f]or many years, Egypt has been following an approach and a policy of protection, and one of the difficult and immediate decisions that this government has taken is that we have announced very explicitly that we are reducing protection for our markets and our industry.”<sup>18</sup>

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18. Speech by Egyptian Minister of Trade and Industry Rachid Mohamed Rachid at the Institute for International Economics, Washington, November 15, 2004, quoted in David Shelby, “Egyptian Trade Minister Rashid says Egypt Intent on Opening Trade,” Washington File, November 15, 2004, available at [www.america.gov](http://www.america.gov).

**Table 2.5 Top 20 US imports from Egypt, 2000–08** (ranked by 2008 values)

Rank	HS 8-digit code	Description	Imports (millions of US dollars)				
			2000	2001	2002	2003	2004
1	27111100	Natural gas, liquefied	0	0	0	0	0
2	27090010	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees API	0	0	0	0	0
3	62034240	Men's or boys' trousers and shorts, not bibs, not knitted/crocheted, of cotton	75	72	70	95	97
4	27101115	Light oil motor fuel 70 percent+ by weight from petroleum oils	0	0	129	90	55
5	62046240	Women's or girls' trousers, breeches and shorts, not knitted/crocheted, of cotton, nesoi	102	107	87	98	112
6	31021000	Urea, whether or not in aqueous solution	20	52	12	49	14
7	98010010	US goods returned without improved condition or greater value	93	31	35	137	96
8	31028000	Mixtures of urea and ammonium nitrate in aqueous or ammoniacal solution	0	0	0	0	0
9	61102020	Sweaters, pullovers and similar articles, knitted or crocheted, of cotton, nesoi	50	42	48	48	53
10	61091000	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton	20	15	15	20	17
11	61103030	Sweaters, pullovers and similar articles, knitted/crocheted, of man-made fibers, nesoi	7	7	4	4	13
12	61051000	Men's or boys' shirts, knitted or crocheted, of cotton	16	16	13	17	21
13	27090020	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees API or more	0	54	0	23	0
14	57024210	Wilton and like floor coverings of pile construction, of man-made textile materials	28	18	25	31	38
15	27101125	Naphthas (excluding motor fuel/motor fuel blend stock) from petroleum oils & bituminous minerals (other than crude) or preparations 70 percent+ by weight from petroleum oils	0	0	34	36	155
16	27040000	Coke and semicoke of coal, lignite or peat, whether or not agglomerated; retort carbon	0	0	6	5	19
17	57033080	Carpets & other textile floor coverings, tufted, whether or not made up, of man-made textile materials (not nylon/other polyamides), nesoi	0	0	0	0	0
18	63026000	Toilet linen and kitchen linen, of terry toweling or similar terry fabrics, of cotton	8	11	11	18	11
20	62052020	Men's or boys' shirts, not knitted or crocheted, of cotton, nesoi	22	17	19	16	11
		Subtotal	441	442	508	687	712
		Total	888	879	1,352	1,144	1,330

nesoi = not elsewhere specified or included

n.a. = not available

Sources: US International Trade Commission Interactive Tariff and Trade Dataweb, <http://dataweb.usitc.gov>; Harmonized Tariff Schedule of the United States, 2007, Revision 2.

## 24 REENGAGING EGYPT: OPTIONS FOR US-EGYPT ECONOMIC RELATIONS

				Share of total (percent)		Growth of imports		US 2008 MFN duty rate	Percent of 2008 imports entering under QIZ
2005	2006	2007	2008	2000	2008	2000-08	2005-08		
752	829	783	482	0	20	n.a.	-14	free	9
20	0	0	194	0	8	n.a.	113	52.5¢/barrel	94
117	158	167	179	8	8	11	15	16.6 percent	98
143	83	286	166	0	7	n.a.	5	52.5¢/barrel	0
103	120	144	157	11	7	6	15	16.6 percent	99
20	20	127	139	2	6	27	91	free	0
76	34	22	107	10	5	2	12	free	0
0	0	39	70	0	3	n.a.	n.a.	free	0
46	61	70	70	6	3	4	15	16.5 percent	99
16	30	31	40	2	2	9	36	16.5 percent	99
12	30	28	37	1	2	23	46	32.0 percent	98
20	40	43	36	2	2	11	22	19.7 percent	96
44	10	31	35	0	1	n.a.	-7	10.5¢/barrel	0
50	38	36	34	3	1	2	-12	free	0
81	44	0	27	0	1	n.a.	-31	10.5¢/barrel	0
20	0	5	24	0	1	n.a.	6	free	0
1	9	18	23	0	1	n.a.	184	6.0 percent	1
17	21	21	23	1	1	14	11	9.1 percent	97
12	17	15	21	2	1	-1	21	19.7 percent	98
1,550	1,544	1,866	1,864	78	79	20	6		
2,091	2,393	2,380	2,371			13	4		

## Increasing Access to the Egyptian Market

As part of the reform package, the government significantly cut the trade-weighted average MFN tariff rate from 14.6 to 9.1 percent and reduced the number of tariff bands from 28 to 6 (IMF 2005). Tariffs on most automobiles fell from 104 to 40 percent and tariffs on auto components were cut from 20 percent to between 7 and 10 percent.<sup>19</sup> The government slashed an additional 1,000 tariffs in February 2007, bringing the average MFN tariff down to 6.9 percent, with more than 90 percent of items facing duties of less than 15 percent.<sup>20</sup>

Unlike Egypt's exports to the United States, US exports to Egypt have grown much more rapidly in the latter part of the decade than in the former, increasing by 24 percent per year in the period 2005–08. This is largely due to increases in the prices of the main US exports to Egypt. Egypt mostly buys food from the United States, particularly wheat and corn, which together have accounted for between 15 and 30 percent of US exports to Egypt since 2000 (table 2.6). Egypt, one of the world's largest wheat importers, is a key purchaser of US wheat.<sup>21</sup> US corn exports to Egypt have doubled in value from 2000 to 2008, and US sales of soybeans, which started at a relatively low base in 2000 of \$25 million, have grown by over 1,000 percent, from 1 percent of the US export bundle to 6 percent. Trade has also been boosted by the significant trade liberalization under Egypt's economic reform program. For example, tariffs on the top two US exports, wheat and corn, which were 2 percent in 2005, are now free. As table 2.6 illustrates, Egypt's 2007 tariffs on the top 20 US exports to Egypt (representing about 65 percent of total US exports to Egypt) generally range from 0 to 5 percent, with a few tariff lines subject to peaks of 30 percent (for war munitions and parts thereof) or 10 percent (parts for radar apparatus, radio navigational aids, and TVs). More than one-third of 2007 US exports to Egypt, including wheat and corn, entered duty free under the 2007 revised tariff, about two and a half times the exports that entered duty free under the 2005 tariff.

## Egypt's Network of Trade Agreements

To complement its unilateral reforms, and to extend its export reach, Egypt has embarked on a series of bilateral and regional trade agreements with

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19. Economist Intelligence Unit, *Country Commerce: Egypt, 2007*. This applied to cars with an engine up to 1,600cc.

20. Economist Intelligence Unit, *Country Commerce: Egypt, 2007*, 89. Import tariffs on some goods remain high, such as a 40 percent tariff on imported automobiles and 30 percent tariffs on imported clothing.

21. In 2008 and 2006 Egypt bought 6 percent of US wheat; in 2007 Egypt was the second largest purchaser of US wheat (9 percent).

its main trading partners. Egypt's most important trade agreement is the Egypt-EU FTA, which entered into force in 2004. Economic relations between Egypt and the European Union are governed by the 1995 Barcelona Process, which aims to establish a cooperation framework between the European and Mediterranean countries that will advance members' economic and social development while stimulating regional integration in the Middle East.<sup>22</sup> The aim is to forge a Euro-Mediterranean free trade area by 2010, built upon bilateral FTAs between Europe and the Mediterranean partners as well as free trade among the Mediterranean countries. In addition to the trade component, the process includes a political dialogue, which emphasizes the principles of democracy and fundamental human rights, as well as cultural, scientific, and technological cooperation.

The European Union lifted tariffs on Egyptian industrial goods and certain agricultural goods immediately upon entry into force of the FTA (exceptions include wool, cotton, hides and skins, and various oils).<sup>23</sup> Egypt will phase out tariffs on EU imports over a period of 15 years, following four schedules: Raw materials and industrial equipment were phased out over three years (in 2007); tariffs on semi-finished goods will be removed after nine years (in 2013); tariffs on finished products and consumer goods after 12 years (in 2016); and tariffs on automobiles after 15 years (in 2019).<sup>24</sup> The agreement uses the Euro-Mediterranean model of diagonal cumulation for obtaining preferential access to the EU market—that is, products that have obtained originating status in one partner country may be further processed or added to products originating in another member as though originating in that partner country.

The FTA currently mostly covers industrial goods but establishes mechanisms for liberalizing other areas, particularly agriculture and services. In February 2007 the European Union and Egypt began talks on further liberalizing trade in agriculture, including processed agricultural goods and fisheries products, and in March 2007 adopted the Neighborhood Policy Action Plan, designed to boost bilateral trade over the next three to five years and to increase cooperation between the two partners. This was supported by an assistance package of €558 million.<sup>25</sup>

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22. Full members of the Barcelona Process include the 27 EU member countries and the EU Commission and 16 Mediterranean countries: Albania, Algeria, Bosnia and Herzegovina, Croatia, Egypt, Israel, Jordan, Lebanon, Libya, Mauritania, Monaco, Montenegro, Morocco, occupied Palestinian territories, Syria, Tunisia, and Turkey.

23. A protocol amends the agreement to accommodate the enlargement of the Union to 27 member states in 2007.

24. In addition to Egypt, EU Association Agreements are in force with Tunisia (since 1998), Israel (2000), Morocco (2000), Jordan (2002), and Syria (2004) and, on an interim basis, the Palestinian Authority (since 1997).

25. See EU Delegation to Egypt, EU-Egypt Association Agreement and EU Delegation, "European Neighborhood Policy: Implications for Business," [www.eu-delegation.org](http://www.eu-delegation.org).

**Table 2.6 US exports to Egypt, 2000–08**

HTS code	Commodity description
100190	Wheat (other than durum wheat) and meslin
100590	Corn (maize), other than seed corn
720449	Ferrous waste and scrap, nesoi
120100	Soybeans, whether or not broken
270112	Bituminous coal, whether or not pulverized, but not agglomerated
843143	Parts for boring or sinking machinery, nesoi
270799	Oils and products of the distillation of high temperature coal tar, nesoi; similar products that have a predominate (weight) aromatic constituent, nesoi
871000	Tanks and other armored fighting vehicles, motorized, whether or not fitted with weapons, and parts of such vehicles
880330	Parts of airplanes or helicopters, nesoi
390410	Polyvinyl chloride, not mixed with any other substances, in primary forms
930690	Bombs, grenades, torpedoes, mines, missiles and similar munitions of war and parts thereof; other ammunition and projectiles and parts thereof, nesoi
880240	Airplanes and other aircraft nesoi, of an unladen weight exceeding 15,000 kg
980110	Value of repairs or alterations of previously imported articles, repaired or altered prior to exportation from United States
20622	Livers of bovine animals, edible, frozen
230310	Residues of starch manufacture and similar residues, whether or not in the form of pellets
40210	Milk and cream, concentrated, whether or not sweetened, in powder, granules or other solid forms, of a fat content, by weight, not exceeding 1.5 percent
841480	Air pumps and air or other gas compressors, nesoi; ventilating or recycling hoods incorporating a fan, nesoi
271019	Petroleum oils & oils (not light) from bituminous minerals or preps nesoi 70 percent+ by weight from petroleum oils or bitumin minerals
151521	Corn (maize) oil and its fractions, crude, not chemically modified
	Subtotal (top 20 commodities)
	Total

MFN = most favored nation

nesoi = not elsewhere specified or included

n.a. = not available

Source: US International Trade Commission Interactive Tariff and Trade Dataweb, <http://dataweb.usitc.gov>; Egyptian Customs Tariff (2007 tariff includes amendments from Presidential Decree No. 39/2007); authors' calculations.

Exports (millions of dollars)									Share of total (percent)		Average annual growth (percent)		Egypt's MFN tariff (percent)	
2000	2001	2002	2003	2004	2005	2006	2007	2008	2000	2008	2000-08	2005-08	2005	2007
496	387	252	419	452	190	227	699	635	15	11	3	50	2	free
345	398	385	363	350	363	450	613	606	10	10	7	19	2	free
0	0	0	0	12	52	94	144	400	0	7	n.a.	97	5	5
25	43	33	29	41	93	94	166	385	1	6	41	61	free	free
33	23	17	40	42	19	70	138	284	1	5	31	146	2	2
63	72	99	101	145	155	203	254	219	2	4	17	12	free	free
10	18	20	24	32	55	78	116	172	0	3	43	46	free	free
133	188	169	181	160	250	203	261	139	4	2	1	-18	5	5
160	156	163	131	202	168	166	139	102	5	2	-5	-15	2	2
4	2	4	10	17	15	29	65	99	0	2	49	88	12	2
189	79	126	17	25	42	77	80	91	6	2	-9	29	n.a.	n.a.
0	344	40	3	1	0	276	275	75	0	1	n.a.	n.a.	0 or 32	0 or 30
4	6	7	18	18	103	251	113	65	0	1	42	-14	0, 2, or 12	0, 2, or 10
21	19	14	19	0	39	81	68	63	1	1	15	17	5	5
17	18	14	29	14	26	25	48	58	1	1	17	31	2	free
5	4	0	0	7	7	32	26	53	0	1	34	96	5	5
8	6	10	13	10	11	15	2	48	0	1	25	63	2	2
0	0	3	2	1	1	3	5	47	0	1	n.a.	261	5	5
0	1	6	13	8	9	6	17	41	0	1	n.a.	66	2	2
1,513	1,764	1,362	1,412	1,537	1,598	2,380	3,229	3,582			11	31		
3,329	3,778	2,866	2,660	3,105	3,169	4,104	5,347	6,031			8	24		

Talks on services are also advancing: A bilateral working group on services liberalization was established in 2001 with specific meetings on transport, telecommunications, tourism, and financial services. In 2004 the parties adopted the Istanbul Framework Protocol on the Liberalization of Services and the Right of Establishment. The parties have also discussed “regulatory alignment” of laws and regulations between the Euro-Mediterranean countries within certain services sectors (computer services, postal and courier services, financial services, international maritime transport services, and telecommunication services). Egypt-EU services negotiations have used the Istanbul Protocol as a basis but have gone further, also considering the right of establishment and, in an Egyptian proposal, the temporary movement of natural persons. Investment is addressed at the bilateral level—Egypt has bilateral investment treaties with all but two (Estonia and Ireland) EU members.

Egypt has also forged a recent agreement with non-EU European countries. The free trade agreement between Egypt and the European Free Trade Association (EFTA) was signed in January 2007 and entered into force on August 1, 2007. The agreement includes trade in goods, including technical barriers to trade (TBT) and sanitary and phytosanitary (SPS) provisions; provisions on trade in services and investment; intellectual property rights; competition; and procurement. Tariffs on nearly all industrial products from EFTA to Egypt will be eliminated by January 1, 2020; Egyptian goods enter EFTA duty free since entry into force of the agreement. Rules of origin follow the Euro-Mediterranean model of diagonal cumulation. Duty-free access is granted to all fish and marine products but basic agricultural goods are covered in bilateral agreements negotiated separately with each of the EFTA states, which offer less than full liberalization, and processed agricultural products are covered in a protocol that grants Egypt treatment no less favorable than that accorded to the European Community and is subject to review in five years. An Egypt-Turkey FTA was signed on December 27, 2005 and entered into force on March 1, 2007. The FTA is to liberalize trade within a period of 12 years. It covers most industrial and agricultural goods, with a small number of exceptions.

Within the Middle East region, Egypt is a member of the Greater Arab Free Trade Area (GAFTA), which incorporates 18 of the 22 Arab League members.<sup>26</sup> GAFTA covers merchandise trade only: Tariffs on industrial goods were eliminated as of January 1, 2005. Agricultural products are largely exempted from the agreement during the harvest season and many nontariff barriers remain. Rules of origin require that over 40 per-

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26. GAFTA includes the 17 members that signed on in 1997—Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Palestinian Authority, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, United Arab Emirates, and Yemen—plus Algeria, which signed on in 2005.

cent of value added originate in a GAFTA member country.<sup>27</sup> Egypt is also a member of the Agadir process, which seeks to link Egypt, Jordan, Morocco, and Tunisia in a regional free trade pact. The Agadir Agreement was signed in February 2004 and began to be implemented in 2007.

In strengthening ties with its African neighbors, Egypt also became a member of the Common Market for Eastern and Southern Africa (COMESA) in 1998 and eliminated duties on COMESA imports in 2000.<sup>28</sup> COMESA had aimed to implement a common external tariff, the free movement of capital and labor, and common trade disciplines by 2004, but these objectives were deferred and as of September 2009 had not been implemented.<sup>29</sup>

Tables 2.7 and 2.8 list Egypt's main trading partners. For the period 2000–08, Egypt's overall exports have grown by over 20 percent per year, slightly more (24 percent) during the latter half of this period. The European Union is Egypt's main trading partner. It absorbed 39 percent of Egyptian exports and was a source of nearly a third of Egypt's imports in 2008. As seen in table 2.7, this share is down from 2000, when the European Union purchased nearly half of Egypt's exports. Other trading partners have grown more dynamically. GAFTA's share of Egypt's exports has increased substantially, from 12 percent in 2000 to 20 percent in 2008, growing at an average annual rate of 29 percent. COMESA, Turkey, and Jordan have also increased in relative share as export destinations. Egyptian exports, particularly of LNG, to other, non-FTA partners have exhibited strong growth. Japan's purchases of Egyptian goods increased by a factor of ten during 2000–08, and Mexico's purchases of Egyptian exports grew by nearly 80 percent per year. The US share of Egypt's exports fell from 13 percent in 2000 to 7 percent in 2008, with US purchases of Egypt's exports growing by 12 percent per year.

Table 2.8 shows similar dynamics for Egypt's imports. Imports from the European Union have grown by 12 percent per year since 2000 (19 percent per year since the implementation of the trade agreement), but the European Union's role as a source of imports has fallen from 38 percent in 2000 to 32 percent in 2008. GAFTA has increased its relative share of Egypt's market, growing from 6 to 10 percent at a rate of 23 percent per year in the period 2000 to 2008. Imports from China have grown significantly, at a rate of 28 percent per year since 2000; China's import share has increased from 4 to 10 percent. The US share has declined from 17 percent in 2000 to 11 percent in 2008.

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27. For a more thorough description of the GAFTA and Agadir processes, see Brunel (2008).

28. COMESA members are Burundi, Comoros, Democratic Republic of the Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia, and Zimbabwe.

29. World Trade Organization, *Trade Policy Review: Report by Egypt* (WT/TPR/G/150), Geneva, June 28, 2005.

**Table 2.7 Egypt's top export destinations, 2000–08**

Destination	Exports (millions of dollars)									Percent of total		Average annual growth (percent)	
	2000	2001	2002	2003	2004	2005	2006	2007	2008 <sup>a</sup>	2000	2008	2000–08	2004–08
World	6,354	4,141	7,049	8,500	12,188	15,594	20,760	23,859	29,165			21	24
<b>FTA partners</b>													
European Union	3,036	1,339	2,860	3,453	4,817	5,881	8,721	8,619	11,308	48	39	18	24
Greater Arab Free Trade Area (GAFTA)	735	581	854	1,175	2,285	3,058	3,856	4,870	5,792	12	20	29	26
Agadir process countries	115	73	163	264	420	543	721	880	1,000	2	3	31	24
Other GAFTA	620	509	691	911	1,865	2,515	3,135	3,989	4,792	10	16	29	27
COMESA	129	112	155	257	402	603	720	858	1,035	2	4	30	27
European Free Trade Association	12	20	22	30	44	50	46	73	59	0	0	23	8
Turkey	128	77	107	172	232	243	357	618	967	2	3	29	43
Qualifying industrial zones													
Israel	19	190	18	20	26	45	70	85	47	0	0	12	16
Jordan	40	25	69	107	275	335	444	537	609	1	2	41	22
<b>Top non-FTA partners</b>													
United States	813	345	1,288	1,108	1,308	2,019	2,340	2,314	2,104	13	7	13	13
Japan	130	67	63	60	52	107	412	766	1,059	2	4	30	112
Korea	126	51	122	177	306	183	409	558	610	2	2	22	19
China	93	40	84	138	173	192	197	216	446	1	2	22	27
Mexico	4	0	3	3	4	134	76	340	376	0	1	78	206
Pakistan	27	21	36	32	50	113	140	174	219	0	1	30	45
Russia	4	8	19	35	51	75	120	157	212	0	1	62	43
Hong Kong	22	8	29	36	58	123	80	115	188	0	1	31	34
Malaysia	14	10	15	21	28	34	44	78	108	0	0	29	40
Canada	25	10	37	83	153	118	123	153	100	0	0	19	-10
Thailand	12	9	10	48	76	59	15	6.4	80	0	0	27	1
Singapore	139	86	77	113	230	261	77	60	79	2	0	-7	-23

FTA = free trade agreement

COMESA = Common Market for Eastern and Southern Africa

a. 2008 figures are estimates based on the first three quarters of the year.

Source: International Monetary Fund, *Direction of Trade Statistics*; authors' calculations.

**Table 2.8 Egypt's top sources of imports, 2000–08**

Source	Imports (millions of dollars)									Percent of total		Average annual growth (percent)	
	2000	2001	2002	2003	2004	2005	2006	2007	2008 <sup>a</sup>	2000	2008	2000–08	2004–08
World total	22,040	12,720	19,888	21,351	27,936	33,181	40,038	50,496	62,652			14	22
<b>FTA partners</b>													
European Union	8,277	3,952	6,895	7,739	10,095	11,336	12,290	15,376	20,240	38	32	12	19
Greater Arab Free Trade Area (GAFTA)	1,244	1,054	1,584	1,605	2,488	3,282	4,069	4,946	6,308	6	10	23	26
Agadir process	79	58	70	87	93	128	147	187	203	0	0	13	21
Other GAFTA	1,165	996	1,514	1,518	2,395	3,155	3,921	4,759	6,105	5	10	23	26
COMESA	249	275	246	244	346	453	618	739	883	1	1	17	26
Turkey	413	244	359	380	520	756	780	993	1,548	2	2	18	31
European Free Trade Association	390	249	377	370	378	405	414	497	552	2	1	4	10
Qualifying industrial zones													
Israel	65	19	29	29	32	103	138	169	175	0	0	13	53
Jordan	26	21	21	30	33	50	62	80	85	0	0	16	27
<b>Top non-FTA partners</b>													
United States	3,729	1,832	3,153	2,926	3,415	3,486	4,514	5,882	7,023	17	11	8	20
China	886	513	938	1,032	1,519	2,129	3,274	4,876	6,539	4	10	28	44
Russia	494	291	538	412	854	1,155	1,363	2,147	2,185	2	3	20	26
Japan	806	366	559	804	840	867	1,254	1,419	1,578	4	3	9	17
Brazil	264	252	425	508	686	955	1,484	1,362	1,505	1	2	24	22
Korea	568	269	353	468	592	777	939	1,283	1,410	3	2	12	24
India	360	284	373	385	450	670	828	1,028	1,171	2	2	16	27
Indonesia	220	158	198	187	217	320	511	649	821	1	1	18	39
Thailand	153	106	138	191	239	292	418	527	733	1	1	22	32
Malaysia	247	112	325	500	402	503	376	525	707	1	1	14	15
Argentina	384	257	446	491	657	615	357	635	679	2	1	7	1
Canada	112	115	123	180	164	286	411	360	548	1	1	22	35
Singapore	152	40	140	121	142	168	321	364	425	1	1	14	32

FTA = free trade agreement

COMESA = Common Market for Eastern and Southern Africa

a. 2008 figures are estimates based on the first three quarters of the year.

Source: International Monetary Fund, *Direction of Trade Statistics*; authors' calculations.

## Improving the Climate for Business and Investment

In addition to liberalizing trade, Egypt has worked to improve the climate for foreign investors. A core element of Egypt's 2004 economic reforms was the liberalization of the foreign investment regime with a view to attracting FDI into sectors such as manufacturing and services—sectors that are more labor intensive than the petroleum/mining sector, where much of the foreign investment in Egypt has occurred. As part of this endeavor, Egypt has signed more than 80 bilateral investment treaties.<sup>30</sup>

In July 2007, Egypt became both the first Arab and the first African country to sign on to the Organization for Economic Cooperation and Development's Declaration on International Investment and Multinational Enterprises.<sup>31</sup> As part of its reforms, Egypt established a ministry for investment policy, reduced and streamlined administrative procedures, and initiated a program for the privatization of state-owned industries as well as tax reform (OECD 2007, 24).

Since the 2004 economic reforms, FDI inflows have increased, growing from \$200 million in 2003 to \$11.6 billion in 2007, with the overall FDI stock increasing from \$21.3 billion to \$50.5 billion (figure 2.5). Privatization and liberalization have increased investment in industries other than petroleum, particularly cement, telecommunications, and tourism. Figure 2.6 shows that the share of investment in manufacturing and services sectors (grouped together as "nonpetroleum") grew from about 35 percent in 2004–05 to over 60 percent in 2007–08, with petroleum's share declining from 65 to 40 percent. According to Egypt's central bank (2008), the financial sector was the dominant nonpetroleum recipient of FDI flows (17 percent), followed by construction, real estate, and other services (13 percent), manufacturing (11 percent), and agriculture (1 percent). During this period FDI flows to the tourism industry grew twelve-fold and those to the financial sector by a factor of five (OECD 2007, 14–15).

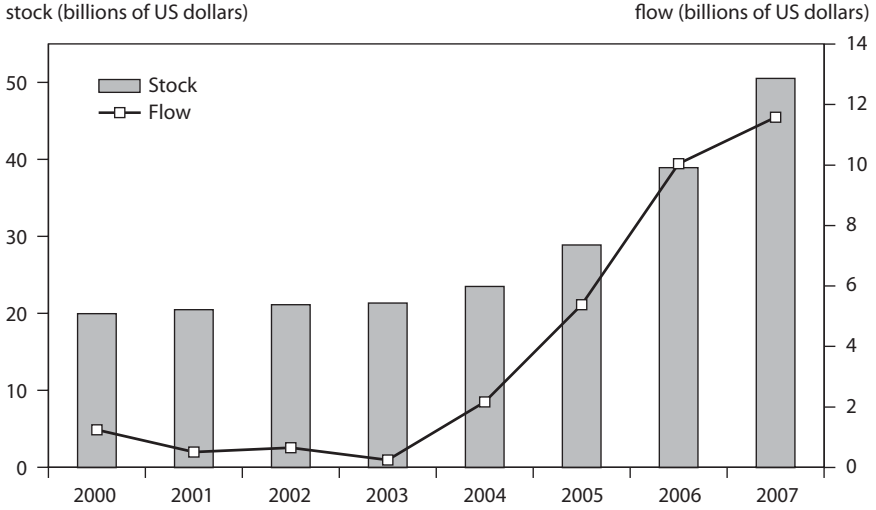
The US-Egypt bilateral investment relationship has also improved in the past decade, albeit from a modest base. The stock of US FDI in Egypt grew from about \$1.1 billion in 2003 to about \$7.5 billion in 2007

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30. Egypt is one of the developing countries with the most BITs—84—surpassed only by China (94) and Romania (90). Among developed countries, Germany has the largest number of concluded BITs (124), followed by Switzerland (95), and France and the United Kingdom with 92 BITs each (Henisz, Jandhyala, and Mansfield 2007).

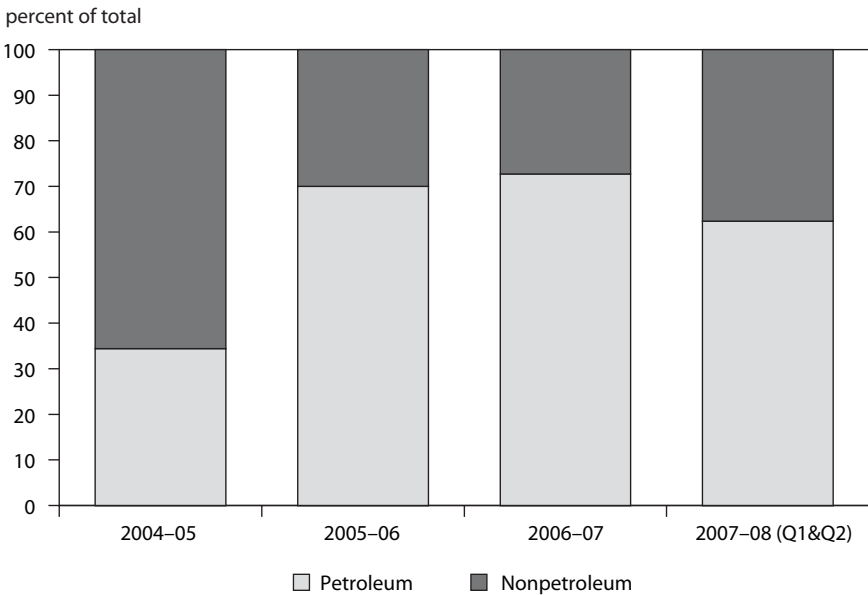
31. The OECD Declaration on International Investment and Multinational Enterprises constitutes a policy commitment to improve the investment climate, encourage the positive contribution multinational enterprises can make to economic and social progress, and minimize and resolve difficulties that may arise from their operations. It consists of four parts: the Guidelines for Multinational Enterprises; the Principle of National Treatment; the commitment to cooperate so as to avoid or minimize the imposition of conflicting requirements on multinational enterprises; and the commitment to endeavor to make incentive and disincentive measures as transparent as possible.

**Figure 2.5 Egypt: Foreign direct investment stock and flows, 2000–07**



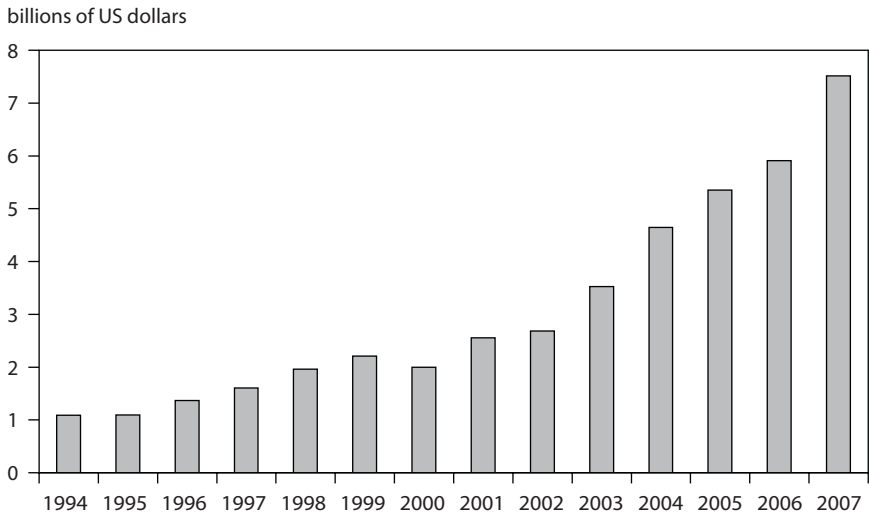
Source: UNCTAD FDIStat Database, [www.unctad.org](http://www.unctad.org).

**Figure 2.6 Egypt: Foreign direct investment flows in the petroleum versus nonpetroleum sectors, 2004–08 (Q1&Q2)**



Source: Central Bank of Egypt, Annual Report 2007/2008, [www.cbe.eg](http://www.cbe.eg).

**Figure 2.7 US foreign direct investment position in Egypt (historical-cost basis), 1994–2007**



Source: US Department of Commerce, Bureau of Economic Analysis, [www.bea.gov](http://www.bea.gov).

(figure 2.7).<sup>32</sup> Mining (which includes petroleum) continues to be the dominant sector, accounting for nearly 90 percent of US FDI in Egypt.

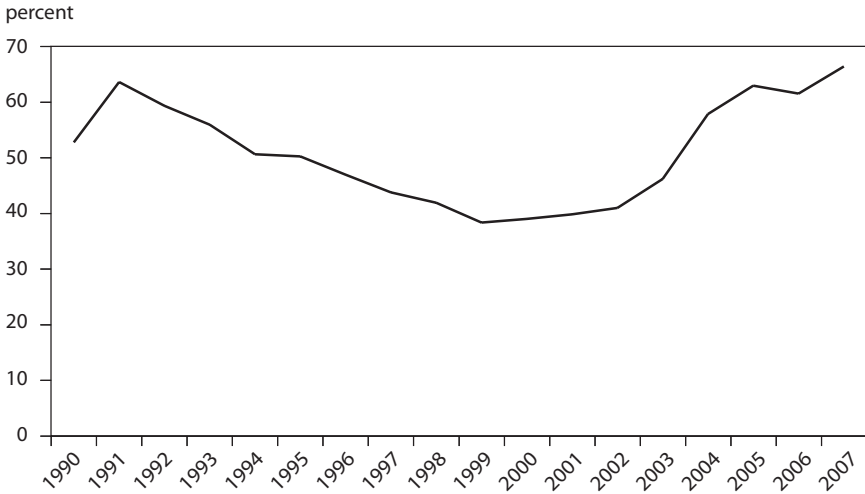
The economic reforms are showing signs of success. Openness to trade, measured as the sum of exports and imports as a percentage of GDP, which had fallen to below 40 percent at the end of the 1990s, has grown to over 60 percent in 2007 (figure 2.8). Economic growth, driven in part by high natural gas and petroleum prices, has been relatively strong in the past decade, at an average of 5 percent per year from 2000 to 2008 and over 6 percent from 2004 to 2008 versus an average of 4 percent in the 1990s (figure 2.9). The Economist Intelligence Unit estimates 2008–09 growth at about 4.5 percent.

Since 2004, Egypt has set up a one-stop shop for investors to cut down the cost and time to register new investments, centralizing up to 30 government entities under one roof and cutting down the time it takes to register a company from about a year to a few days. A number of entities in various sectors have been privatized to increase competition and reduce the state's role in the economy.

As part of its economic reforms, Egypt has also taken steps to facilitate business and boost its competitiveness. In addition to lowering tariffs, the government of Egypt abolished surcharges and service fees (such as in-

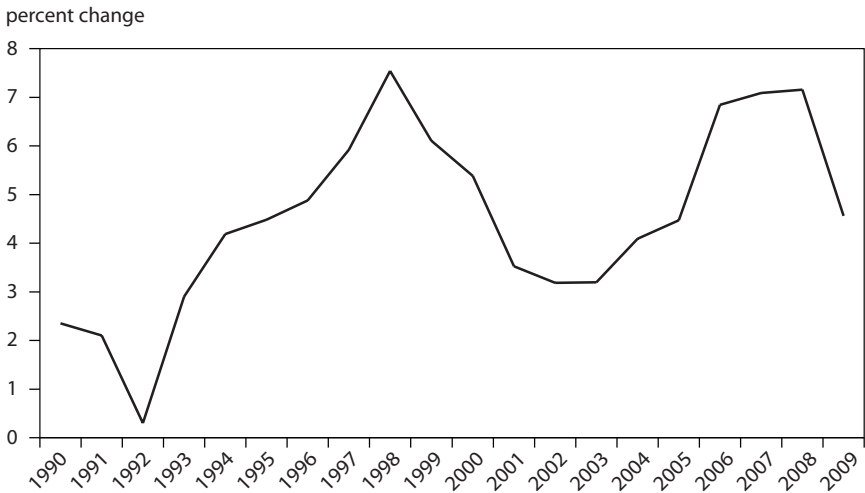
32. The year 1994 is used as a starting point because consistent data for US investment position abroad on a historical-cost basis exist from 1994 to 2006.

**Figure 2.8 Egypt's trade as a percent of GDP, 1990–2007**



Source: World Bank, *World Development Indicators*, 2008.

**Figure 2.9 Egypt: Annual GDP growth, 1990–2009**



Source: International Monetary Fund, *World Economic Outlook*, April 2009.

spection fines for food), the value of which could reach up to 5 percent of imported goods (OECD 2007) and reduced the number of customs procedures and approvals from 26 to 5. Nontariff measures, including administrative and bureaucratic procedures, logistical issues, and other causes for border delay, had been cited as serious impediments to trade and in-

vestment. Marcus Noland and Howard Pack (2007) have noted the trade deterrent effect of Egypt's inadequate transportation infrastructure and unreliable air cargo service. Dan Magder (2005) cites delays in export and import clearance, which can severely limit the effectiveness of liberal economic policies and prevent the country from reaping network and agglomeration gains from regional integration.

Egypt's indicators related to competitiveness have improved. The World Bank's *Doing Business 2008: Egypt* report cites Egypt as making the greatest strides in terms of economic reforms, moving up 26 places from its 2007 rank to 126 in the world in 2008.<sup>33</sup> In the 2009 *Doing Business* rankings, Egypt continued to improve modestly, moving up to 116th in the world (table 2.9). Egypt scores relatively well in starting a business, where its world rank places it fourth in the region after Israel, Saudi Arabia, and Tunisia, in "trading across borders," where it places fifth in the region, and in "protecting investors," where its world rank of 70 places it sixth in the region. Egypt also ranks 13th overall and first in the MENA region in A. T. Kearney's Global Services Location Index for 2007 (table 2.10), where it places strongly in "financial attractiveness" and "business environment." Egypt ranks 14th among the top 20 emerging markets in 2009 A. T. Kearney's Global Retail Development Index (GRDI). The results of these surveys suggest that Egypt should be relatively well positioned to serve as a regional services hub.<sup>34</sup>

## Remaining Challenges: The Future Agenda

Egypt's economy grew at an average annual rate of just under 5 percent during the last decade, with growth rates exceeding 7 percent in 2007 and 2008. This period saw a boost in export competitiveness following a sharp devaluation of the Egyptian pound in 2003–04, the implementation of economic reforms in 2004, and rising LNG exports after 2005.<sup>35</sup>

Egypt's economy has been vulnerable to the global downturn, however. Egypt's main sources of foreign exchange earnings—tourism, the Suez

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33. Improvements of more than 60 places were noted in the categories "Starting a Business" and "Trading Across Borders" and more than 20 slots in "Protecting Investors," "Getting Credit," and "Registering Property." Slippages occurred in "Employing Workers" (-2) and "Closing a Business" (-1). Key reforms cited by the report included cutting the minimum capital required to start a business from 50,000 to 1,000 Egyptian pounds, reducing the cost of registering property from 3 percent of the property value to a low fixed fee, launching one-stop shops for traders at the ports, and cutting the time taken to import by seven days and to export by five. Overall, Egypt ranks 12th out of the 17 Middle East and North African economies.

34. See also Miriam Fam, "Middle East Beckons as Outsourcing Hotspot," *Wall Street Journal*, August 22, 2007, A6.

35. By 2008 Egypt was the world's eighth largest LNG exporter.

**Table 2.9 Doing Business rankings for MENA countries, 2009**

<b>Economy</b>	<b>Ease of doing business rank</b>	<b>Starting a business</b>	<b>Dealing with construction permits</b>	<b>Employing workers</b>	<b>Registering property</b>	<b>Getting credit</b>	<b>Protecting investors</b>	<b>Paying taxes</b>	<b>Trading across borders</b>	<b>Enforcing contracts</b>	<b>Closing a business</b>
Israel	29	28	120	88	146	4	5	77	9	100	41
Saudi Arabia	15	31	39	70	1	59	15	7	18	138	60
Kuwait	52	134	83	27	83	84	25	9	107	114	69
West Bank and Gaza	137	167	149	132	80	165	38	26	92	123	183
Bahrain	18	50	17	13	18	84	53	14	26	113	26
<b>Egypt</b>	<b>116</b>	<b>43</b>	<b>165</b>	<b>119</b>	<b>84</b>	<b>84</b>	<b>70</b>	<b>142</b>	<b>27</b>	<b>154</b>	<b>130</b>
Algeria	134	141	113	117	166	131	70	168	120	125	51
Qatar	37	57	27	64	53	131	88	2	38	97	33
Lebanon	101	99	119	60	107	84	88	46	87	120	123
Oman	60	78	134	24	19	125	88	8	121	103	66
United Arab Emirates	47	118	54	45	7	68	114	4	13	135	143
Jordan	104	119	116	48	105	125	114	22	77	129	96
Syria	138	125	131	89	72	180	114	101	114	175	87
Iraq	150	177	108	51	43	165	114	50	180	148	183
Yemen	103	53	46	66	47	174	127	141	127	36	90
Tunisia	73	38	102	106	56	84	143	110	42	74	34
Sudan	149	111	135	155	35	131	151	90	142	146	183
Morocco	130	59	92	176	118	131	164	120	68	112	67
Iran	142	73	162	137	152	109	164	107	132	54	109
Djibouti	157	175	95	151	138	174	178	62	30	161	134

MENA = Middle East and North Africa

Source: World Bank, *Doing Business 2009* Report, [www.doingbusiness.org](http://www.doingbusiness.org) (accessed on December 3, 2009). The data are updated to reflect changes to the Doing Business methodology and the addition of two new countries.

**Table 2.10 A. T. Kearney Global Services Location Index, 2007**

Country	Financial attractiveness	People and skills availability	Business environment	Total score
<b>Egypt</b>	<b>3.20</b>	<b>1.10</b>	<b>1.30</b>	<b>5.61</b>
Jordan	0.33	0.98	1.54	5.60
United States	0.48	2.74	2.29	5.51
United Arab Emirates	2.70	0.86	1.90	5.50
Tunisia	3.03	0.90	1.50	5.43
Morocco	2.92	0.90	1.33	5.14
Israel	2.00	1.30	1.80	5.10

Source: A. T. Kearney, *Offshoring for Long-Term Advantage: The 2007 A. T. Kearney Global Services Location Index*, [www.atkearney.com](http://www.atkearney.com).

Canal, and workers' remittances—have suffered as a result of waning economic activity in major world markets.<sup>36</sup> Predictions for 2008–09 see a decline in GDP growth to around 4.5 percent, with even lower rates, about 3.9 percent, projected for 2009–10.<sup>37</sup>

Compared with many other countries where negative or no growth is expected, Egypt's plight does not seem so bad. However, despite the success of its economic reforms, Egypt continues to face serious problems of unemployment, poverty, and inequality, which are set to worsen as economic conditions deteriorate in the wake of the global economic crisis. Unemployment remains relatively high, at close to 10 percent. Youth unemployment—significant in a country in which nearly one-third of the population is under 15—exceeds 25 percent.<sup>38</sup> This latter figure underscores an important medium-term challenge. Egypt has a relatively young population, with one-third of the population under the age of 15 and 62 percent between 15 and 64.<sup>39</sup> The lack of job opportunities for young people has social as well as economic effects. Delayed marriage has already

36. Services represent 49 percent of Egypt's output and 50 percent of employment; industry represents 35 percent of output (of which 17 percent is manufacturing) and employs 20 percent of the labor force; and agriculture makes up 14 percent of output and employs 30 percent of labor.

37. Economist Intelligence Unit, *Regional Profile 2009: Middle East*, New York, 2009.

38. In 2003 the unemployment rate was 10 percent, with female unemployment at 24 percent and male unemployment at 6 percent. When looking just at youth unemployment (ages 15–24), these numbers roughly double: 27 percent total, 40 percent female, and 21 percent male (World Bank, *World Development Indicators*, 2007).

39. In the United States, 21 percent of the population is under 15, and 67 percent is between the ages of 15 and 64.

emerged as a rising frustration for young Egyptian men: 76 percent of urban men ages 25–29 are unmarried and a third of men 30–34 are still unmarried. Young unmarried and unemployed men represent a potentially volatile sector of society.

Poverty also continues to be a big problem, with 17 percent of Egyptians at the national poverty line, according to the World Bank's *World Development Indicators*, and about 44 percent of the population living on \$2 per day or less.<sup>40</sup> Income inequality, which moderated somewhat in the mid-1990s, is increasing in the 2000s, with the poorest 20 percent of Egyptians holding only 9 percent of total income. Poverty considerations remain compelling and complicate reform implementation. Food and fuel have long been subsidized, helping Egyptian consumers, particularly the poor, who tend to spend a larger proportion of their income on these necessities, as well as energy-intensive industries. High and rising energy and food prices during the 2000s—particularly of wheat, a major staple of the Egyptian diet—led to growing social tension, increasing pressure to maintain these subsidies.<sup>41</sup> Egypt has pledged, as part of its IMF Article IV consultations, to reduce its fiscal deficit, which is running at about 8 percent of GDP in 2008, to 3 percent of GDP by 2010–11. However, such a shift would require sharp cuts in consumer subsidies, which in turn could fuel social unrest. Instead, the government has reduced energy subsidies but retains subsidies on bread, sugar, and cooking oil.<sup>42</sup>

A related challenge is managing the resultant inflation. Inflation is down compared with the high levels of the 1990s but climbed into double digits in 2007 with high commodity prices and has continued to rise during the 2008–09 global economic downturn (figure 2.10). The government lifted import tariffs on several food items, including rice, dairy products, and

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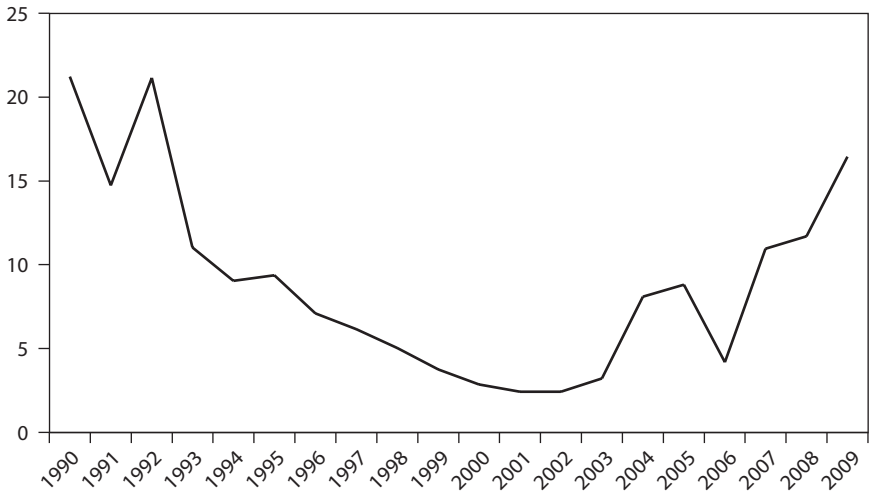
40. With a per capita GDP of \$1,700 (constant 2000 US dollars) in 2006, Egypt qualifies as a lower-middle-income country.

41. In 2008 Egypt experienced large consumer protests against rising food prices. Shortages of subsidized bread have added to the unrest. The growing pressure on the budget arose at a time of social unrest and perceptions that gains from economic reforms have not trickled down to the average Egyptian. In a February 2008 BBC World Service poll, 77 percent of Egyptians favored globalization in principle but found that it was happening too quickly (BBC World Service, Widespread Unease about Economy and Globalization—Global Poll, February 7, 2008, [www.worldpublicopinion.org](http://www.worldpublicopinion.org)). For examples of this tension, see David J. Lynch, "Egypt's Economy Soars; So Does Misery," *USA Today*, May 14, 2008; Manal el-Jesri, "A Portrait of Poverty," *Egypt Today*, March 2008; BBC News, "Clashes in Egypt Strike Stand-off," April 6, 2008; Joel Beinin and Hossam el-Hamalawy, "Strikes in Egypt Spread from Center of Gravity," Middle East Report Online, May 9, 2007; Egypt News, "Egypt Moves on Political, Economic Reforms to Reach Social Justice," December 19, 2007.

42. In August 2007, as part of its strategy to create pricing predictability for investors and to increase energy-sector efficiency, Egypt began to phase out gas and electricity subsidies for energy-intensive industries (Andrew England, "Egypt to Phase Out Energy Subsidies," *Financial Times*, August 14, 2007, [www.ft.com](http://www.ft.com)). This new pricing policy will initially affect 40 companies.

**Figure 2.10 Inflation in Egypt, 1990–2009**

percent change in consumer price index



Source: International Monetary Fund, *World Economic Outlook*, April 2009.

cooking oils. However, duties on fuel, diesel, and cigarettes were increased to finance its promise to increase public-sector salaries.<sup>43</sup> The government's effort to assuage frustrated consumers points to the tension between the need to continue the reform process and pressures to maintain domestic stability in the wake of difficult international conditions.<sup>44</sup>

Although Egypt is home to highly educated and skilled workers, education and training remain challenges, particularly for certain segments of the population. According to A. T. Kearney,<sup>45</sup> "Egypt has the largest talent base of any country in the Middle East, and is home to an increasing number of outsourcing centers operated by multinationals."<sup>46</sup> The Oxford Business Group (2009) also cites Egypt as an up-and-coming call center

43. Public-sector employment as a percent of total employment fell from 70 percent in 1995 to 25 percent in 2004 (International Labor Organization, LABORSTA Database, <http://laborsta.ilo.org>). Until 1998, the government was employing over half of Egyptians who obtained secondary education or higher. Public-sector salaries and wages make up about 7 percent of GDP.

44. Fuel is under priced in Egypt, and in 2007 the government undertook a program to phase out most industrial energy subsidies.

45. A.T. Kearney, *Offshoring for Long-Term Advantage: The 2007 A.T. Kearney Global Services Location Index*, available at [www.atkearney.com](http://www.atkearney.com).

46. Examples include French auto components manufacturer Valeo and Indian vendors such as Satyam and Wipro, which have set up centers in Egypt. VeriSign has installed a regional internet resolution server in Cairo. Teleperformance, a French company, set up a new regional contact center in Cairo in October 2007.

hub, particularly as a result of linguistic advantage. A major challenge for Egypt is to build on and expand this talent base. Although Egypt's talent pool is large, it is relatively shallow in terms of skills, and the potential talent pool may be in trouble: Youth literacy is only 61 percent (an improvement over 48 percent in 1990). The education deficit is a serious issue for Egypt's competitiveness: The World Economic Forum's 2007–08 Executive Opinion Survey listed an inadequately trained workforce as one of the three main impediments to doing business in Egypt. In order to compete successfully internationally, Egypt needs to significantly ramp up the skills of its workforce. Increasing the quality of its workforce is made more compelling by the current global environment: Unlike East Asian economies that could propel themselves toward growth by concentrating on high labor-intensive manufacturing, Egypt is faced with competition from low-wage labor from China in manufactures and from India in services and an uncertain economic environment in which demand from industrialized countries is likely to decline.

A related factor potentially limiting Egypt's competitiveness is gender inequality. Although half of the population is female, women represent only 25 percent of the labor force (18 percent of the nonagricultural labor force). Bill Gates famously stated about Saudi Arabia that "If you're not fully utilizing half the talent in the country, you're not going to get too close to the top 10."<sup>47</sup> While Egypt provides a less restrictive climate for women, its performance on the Millennium Development Goals gender indicators, in which Egypt consistently ranks in the bottom half within the MENA region, indicates that there is much room for improvement.

Political instability and bureaucratic inefficiencies also continue to pose challenges. Egypt ranked eighth in the region on the Economist Intelligence Unit's 2008 business environment score, after Israel, the United Arab Emirates, Qatar, Bahrain, Kuwait, Saudi Arabia, and Jordan. It ranked sixth in the region on the Economist Intelligence Unit's 2008 democracy index, with high marks for political culture. On Transparency International's 2008 corruption perceptions index, Egypt ranked 115th out of 180 countries, suggesting the need for institutional and legal reform.

Egypt is seeking to attract trade and investment that will help create jobs and increase domestic entrepreneurial activity with a view to reducing poverty and increasing the well-being of its people. This will require building upon some important factors working in its favor, such as a favorable time zone with respect to Europe and North America, geographical proximity to Europe, and a cheap, multilingual workforce. It will also require deepening the economic reforms already in play as well as improving the conditions for business, including upgrading infrastructure, lessening administrative burdens, increasing access to capital for small

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47. Bill Gates, quoted in "Gates: Women Key to Saudi Arabia Economy," Associated Press, January 27, 2007, available at [www.washingtonpost.com](http://www.washingtonpost.com).

firms, and, importantly, increasing education and training of the workforce. Egypt needs more vibrant economic growth to maintain its reform trajectory and to generate revenues for needed investments in infrastructure and domestic social programs to improve the standard of living of the poorer segments of Egyptian society. The next chapter puts forward suggestions for how enhanced commercial relations with the United States, for example through the new Strategic Economic Partnership, can help Egypt address these compelling needs.