



# TRADE PERFORMANCE AND STRUCTURE PROFILES<sup>1</sup>

## Egypt

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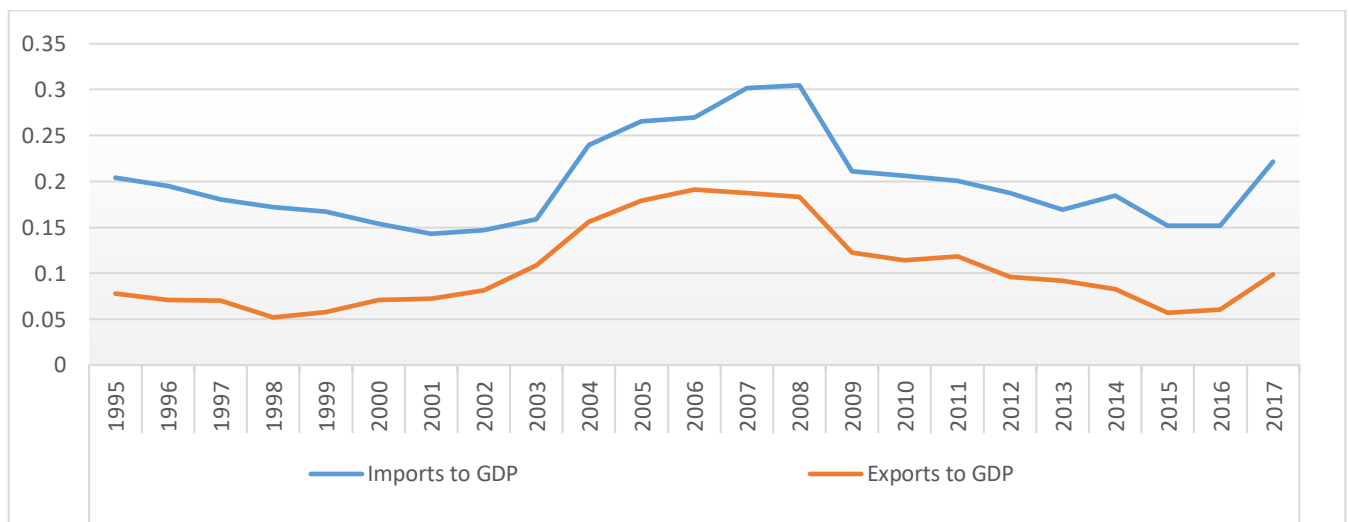
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# TRADE PERFORMANCE AND STRUCTURE PROFILES: EGYPT

Egypt's performance in merchandise and services trade and attracting foreign direct investment in the past two decades have been mixed. In all three domains, the impact of the global financial crisis of 2008 is marked, with a surge in trade and investment, which proved to be unsustainable, in the run up to the crisis and weak performance in the aftermath. Trade and investment appears to be gathering pace once again. The recovery in FDI has been sustained since 2011. Traditional destinations for Egypt's exports have mainly been EU countries but PAFTA countries are rather important destinations, much more so than their share in world trade suggests. Turkey, EU and NAFTA countries hold relatively favorable prospects for Egyptian exports, which are increasingly diversified and sophisticated products.

## I. Trends in Trade and Investment

Figure 1: Merchandise Exports and Imports, as a share of GDP



Source: ESCWA calculations using the World Development Indicators database (accessed October 2018).

Egypt's merchandise exports and imports have exhibited somewhat mixed patterns before the 2008 global financial crisis, with the share of exports in output tripling between 1998 and 2008.

The share of merchandise imports had declined until 2003, narrowing the gap between the shares of merchandise imports exports until then. Since 2003, the shares of merchandise imports and exports in output tracked each other closely.

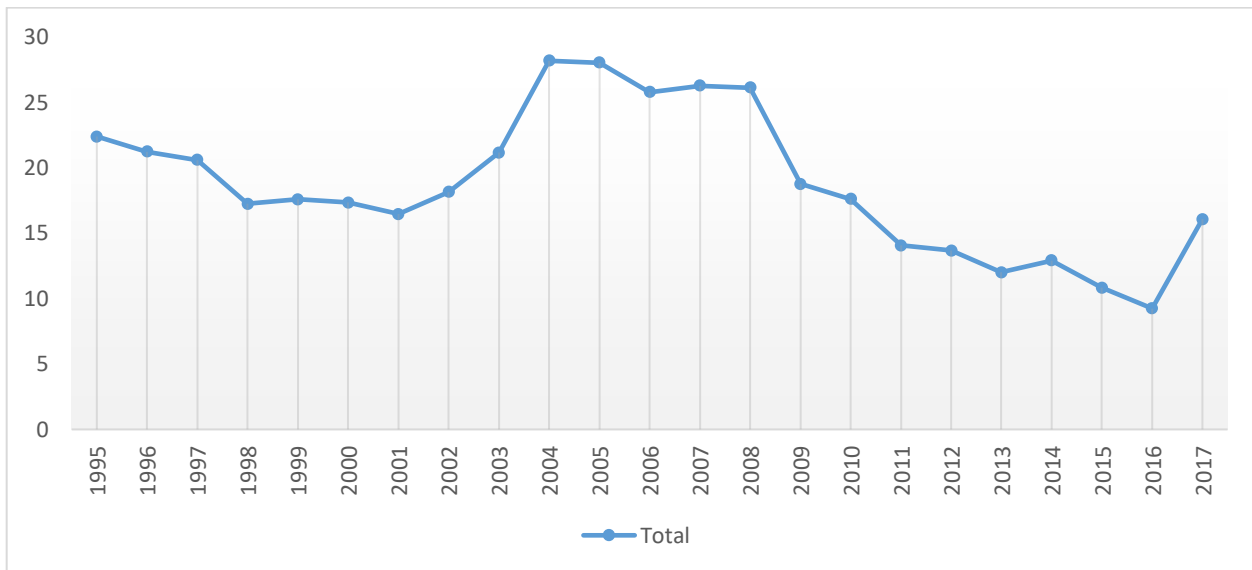
Figure 2: Egypt's Share in World's Exports and Imports



Source: ESCWA calculations using COMTRADE data (accessed October 2018).

Egypt's share in world export has shown relatively strong performance, doubling over the past two decades. After having declined in the second half of the 1990s and the first half of the 2000s, the share of Egypt in world imports rebounded strongly since and, as of 2016, it stands well above the levels observed prior to 2005.

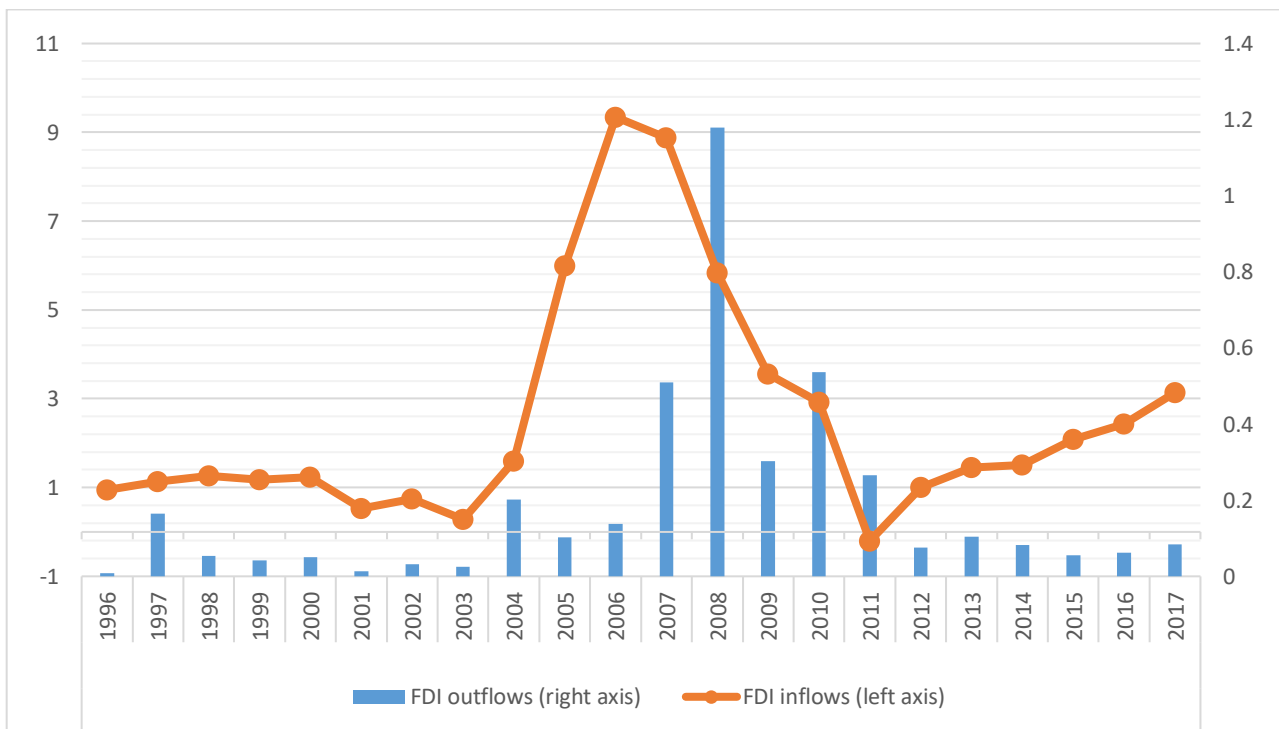
Figure 3: Egypt's Services Trade, 1995-2016, as a share of GDP



Source: ESCWA calculations using the World Development Indicators database (accessed October 2018).

Egypt's trade in services has shown considerable variation since 1995. While the services trade to GDP ratio had reached its peak in 2004 and hovered around this peak until the global financial crisis of 2008, it has since plummeted to levels much below what was recorded before the surge in the early 2000s.

Figure 4: FDI net inflows and outflows, 1996-2016, as a share of GDP



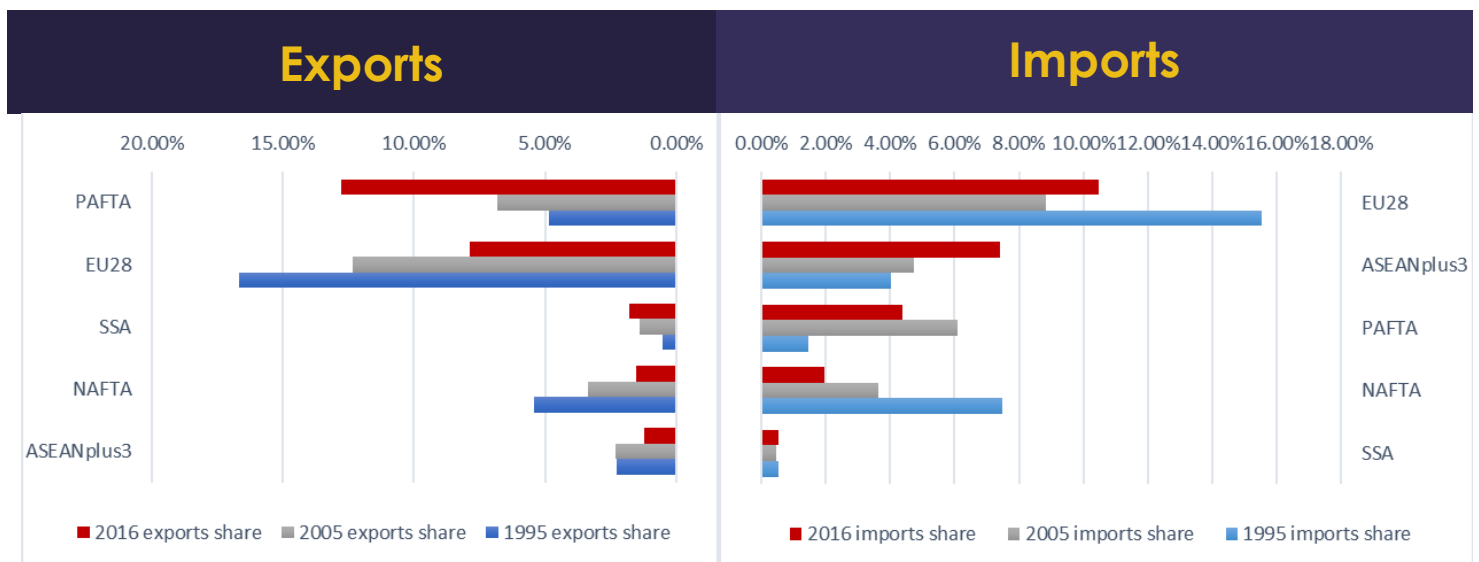
Source: ESCWA calculations using the World Development Indicators database (accessed October 2018).

Egypt witnessed a rather sharp increase in FDI inflows in 2004, which moderated and reached its trough in 2011. FDI inflows have been gathering pace once again and have recorded a steady increase. FDI outflows, on the other hand, are much more muted in general but have shown considerable increase between 2004 and 2011, when FDI inflows surged and moderated.

## II. Merchandise trade structure and indicators performance

This section assesses the trade performance and structure of Egypt employing a range of indicators and indices created using highly disaggregated product level data level.

Figure 5: Top export destinations and import sources, as a share of total exports and imports, 2016

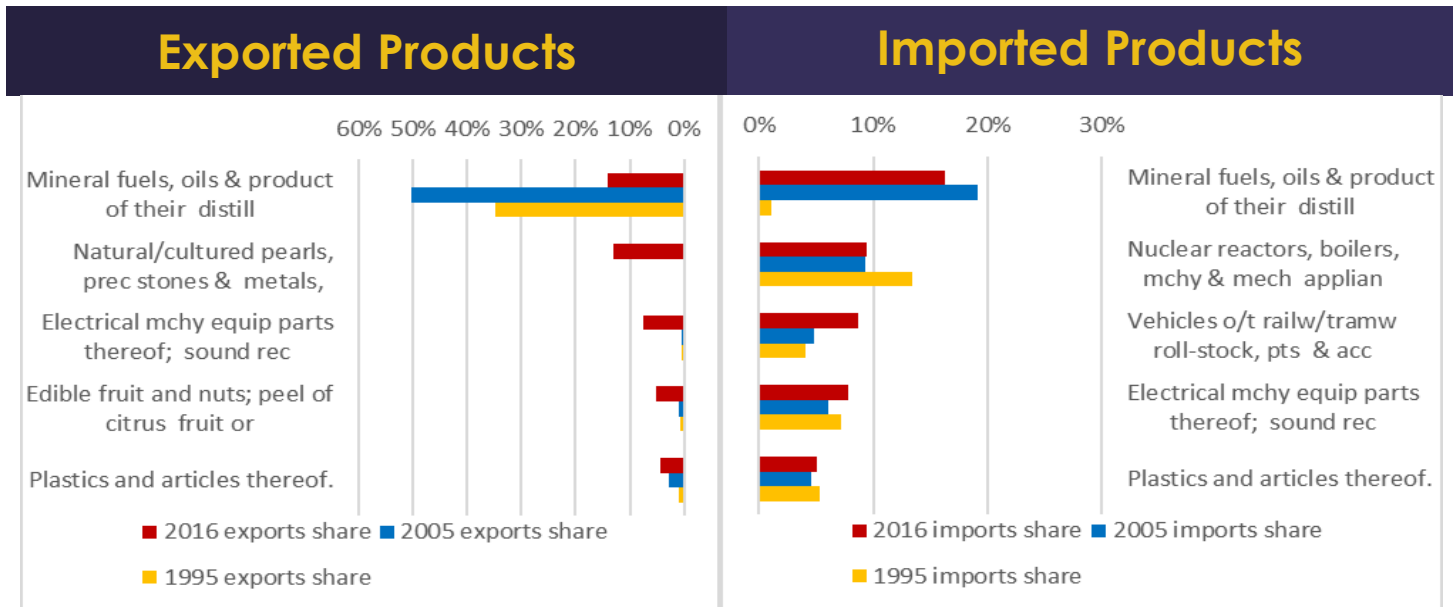


Source: ESCWA calculations using COMTRADE data (accessed October 2018).

PAFTA is the most important destination for Egypt's exports, overtaking the EU over the last decade or so. While the EU remains an important export partner for Egypt, the emergence of sub-Saharan African countries and the declining shares of NAFTA and ASEAN+++ countries are notable.

**As for the imports of Egypt, despite losing ground to other blocs since 1995, the EU is the most important source, followed by ASEAN+++, PAFTA, NAFTA and Sub-Saharan African countries.**

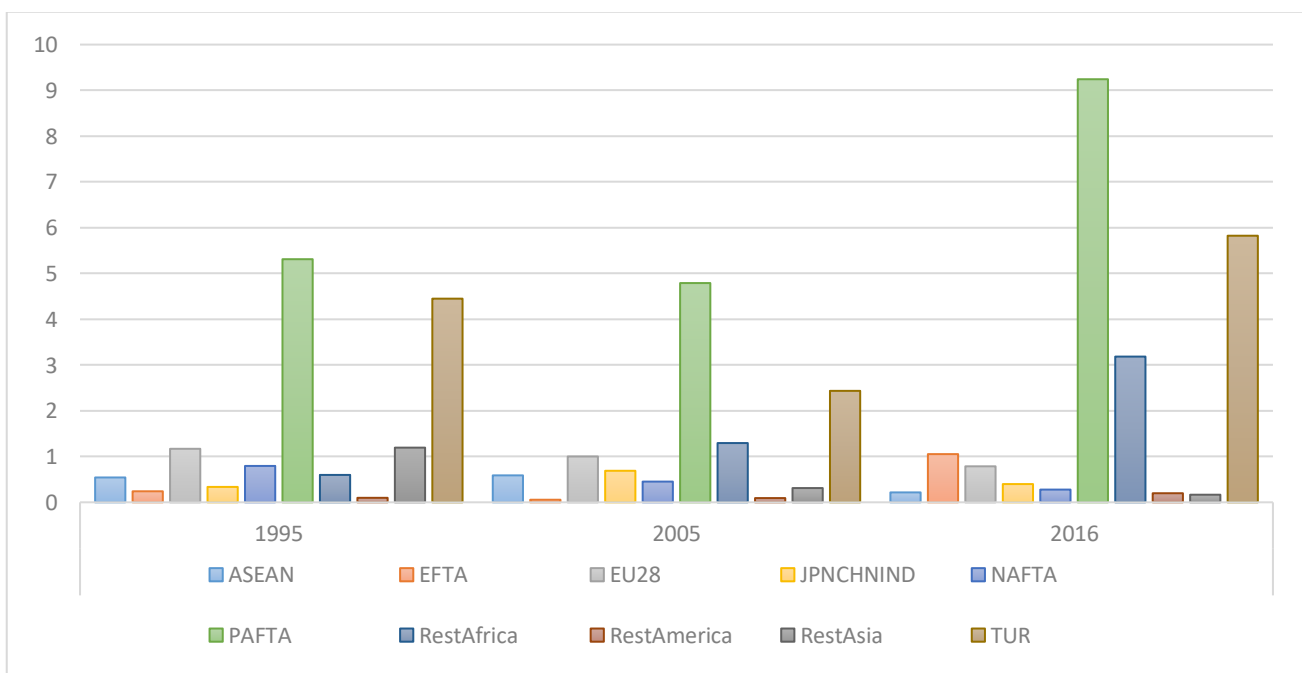
Figure 6: Top products exported and imported, 2016 (as a share of exports and imports)



Source: ESCWA calculations using COMTRADE data (accessed October 2018).

Egypt's exports are concentrated mainly on mineral fuels, oils, and products of their distillation, pearls and precious stones and metals, electrical machinery equipment and parts, fruits and nuts, and plastics. Some of the product groups feature among the top imported products, such as mineral fuels and oils and products of their distillation, electrical machinery equipment and parts, and plastics, possibly indicating the re-exporting and/or further processing of these products.

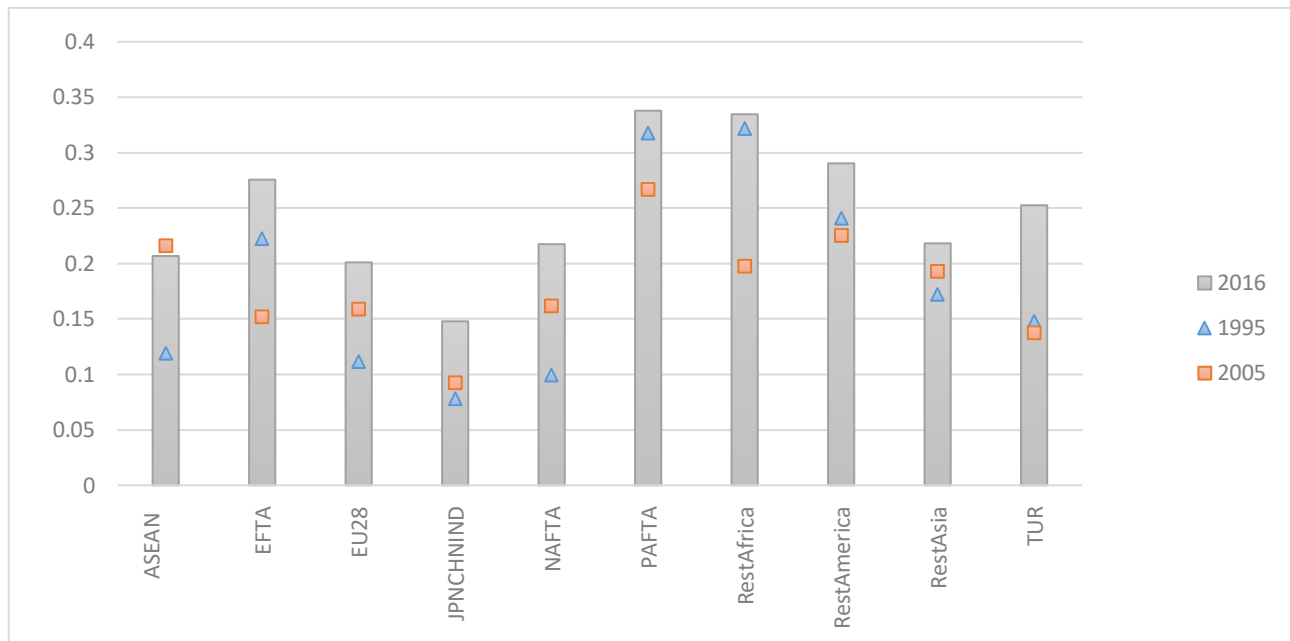
Figure 7: Trade Intensity Index



Source: ESCWA calculations based on COMTRADE data (accessed October 2018).

The trade intensity index captures whether the value of trade between a reporter and partner is greater or smaller than would be expected based on their importance in world trade. Egypt traditionally traded more intensively with PAFTA countries and Turkey than the world trade share of the PAFTA as a bloc and Turkey suggested. Turkey stands out as another partner Egypt trades with intensively African countries have gained considerable ground and they are more important trade partners of Egypt than their world trade share implies.

Figure 7: Trade Complementarity Index



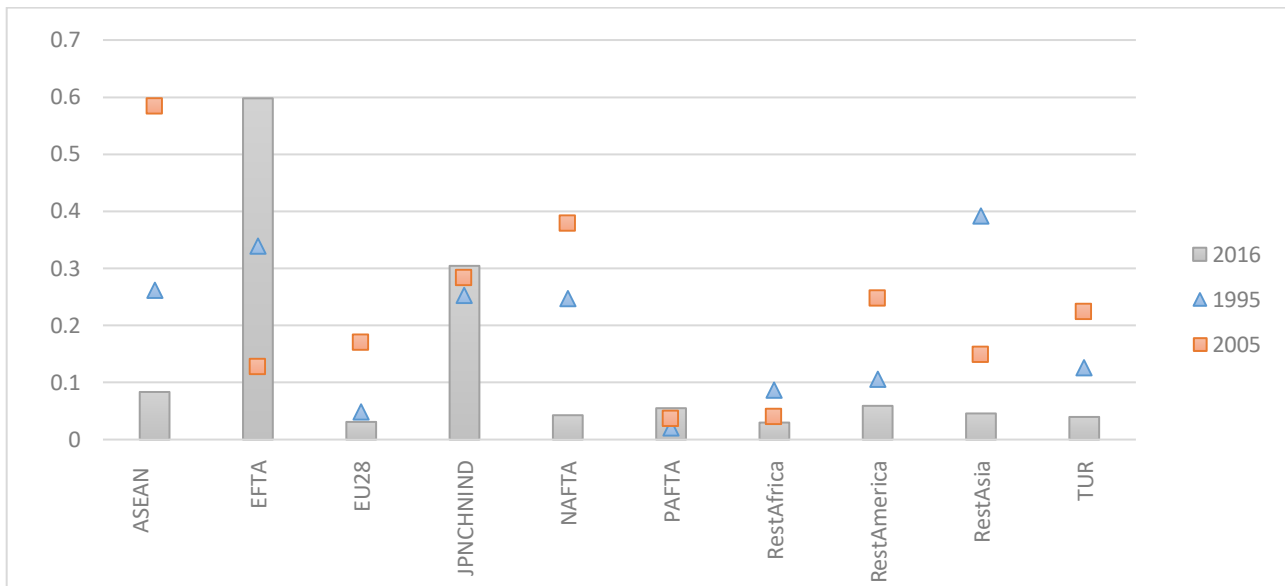
Source: ESCWA calculations based on COMTRADE data (accessed October 2018).

The trade complementarity index captures how well the structures of a country's exports and its partner's imports match, showing the extent of prospects for further exchange. The index takes on the value zero when no goods are exported by one country or imported by the other and 1 when the export and import shares exactly match.

**The index attains relatively higher values with PAFTA, African, American (excluding NAFTA members) countries.**



Figure 8: Hirschman-Herfindahl Index (bilateral export portfolio diversification)

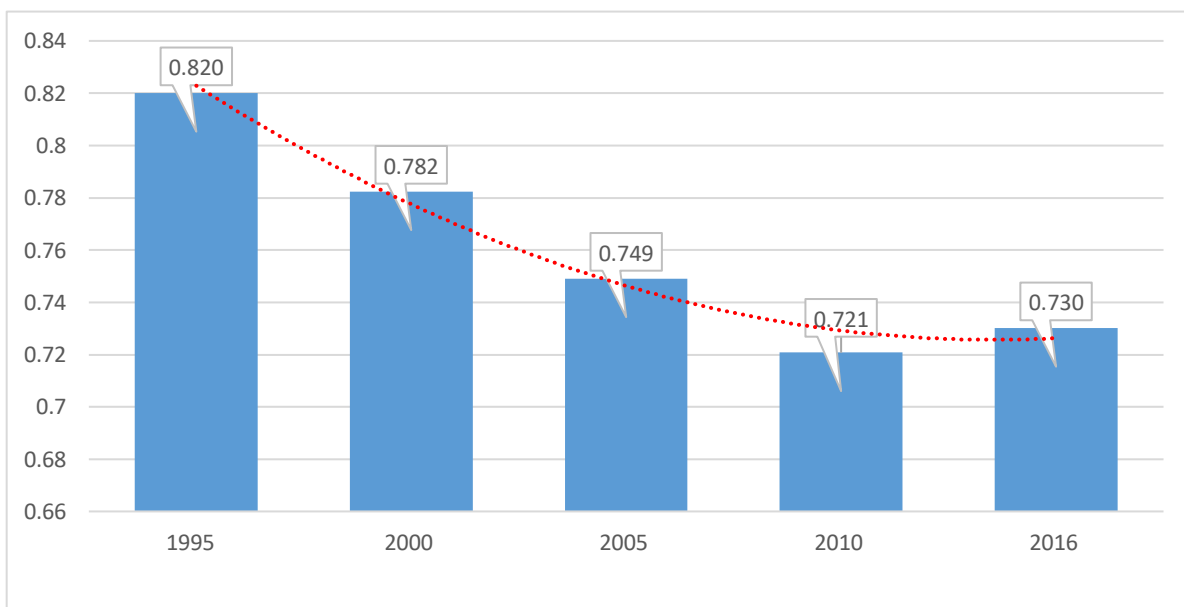


Source: ESCWA calculations based on COMTRADE data (accessed October 2018).

Egypt appears to have less diversified export portfolios vis-à-vis most of its partners, with the notable exception of India, Japan, and China, and EFTA countries, as measured by the Hirschman-Herfindahl Index that captures how diversified a bilateral export portfolio is.

A country with a perfectly diversified export portfolio will have an index close to zero, whereas a country which exports only one export will have a value of 1 (least diversified).

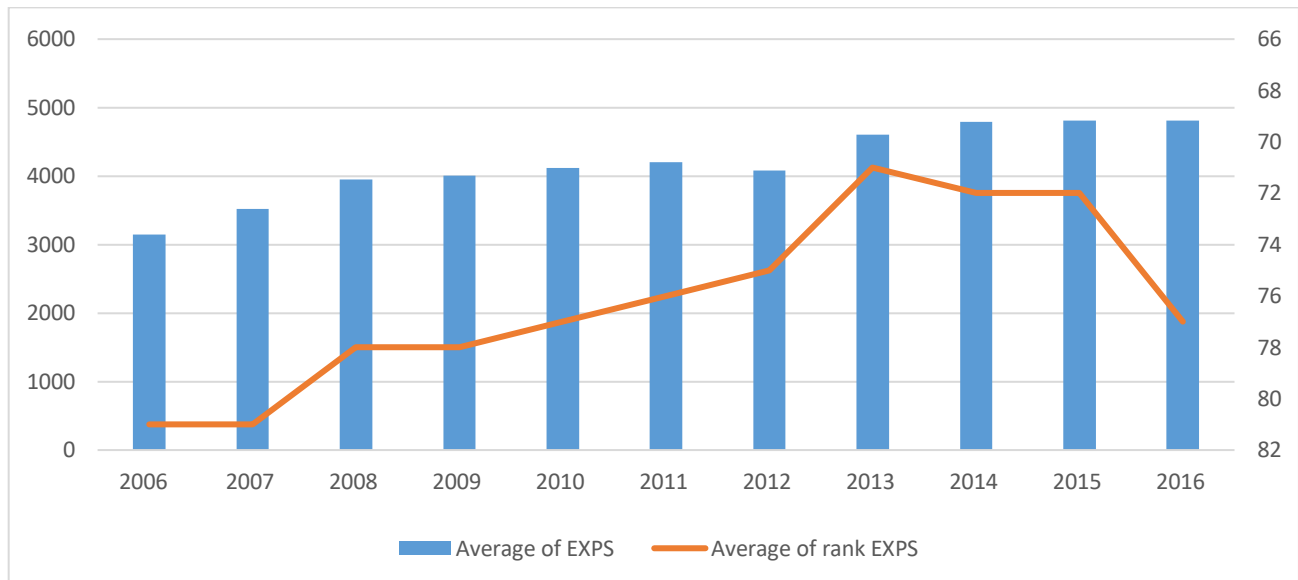
Figure 9: Export Diversification Index



Source: ESCWA calculations based on COMTRADE data (accessed October 2018).

Export diversification index measures whether a country is highly dependent on relatively few products or its export portfolio is diversified. The lower the index, the less concentrated are a country's exports. As measured by this index, Egypt has managed to diversify its export portfolio but its export diversification appears to have stalled since 2010.

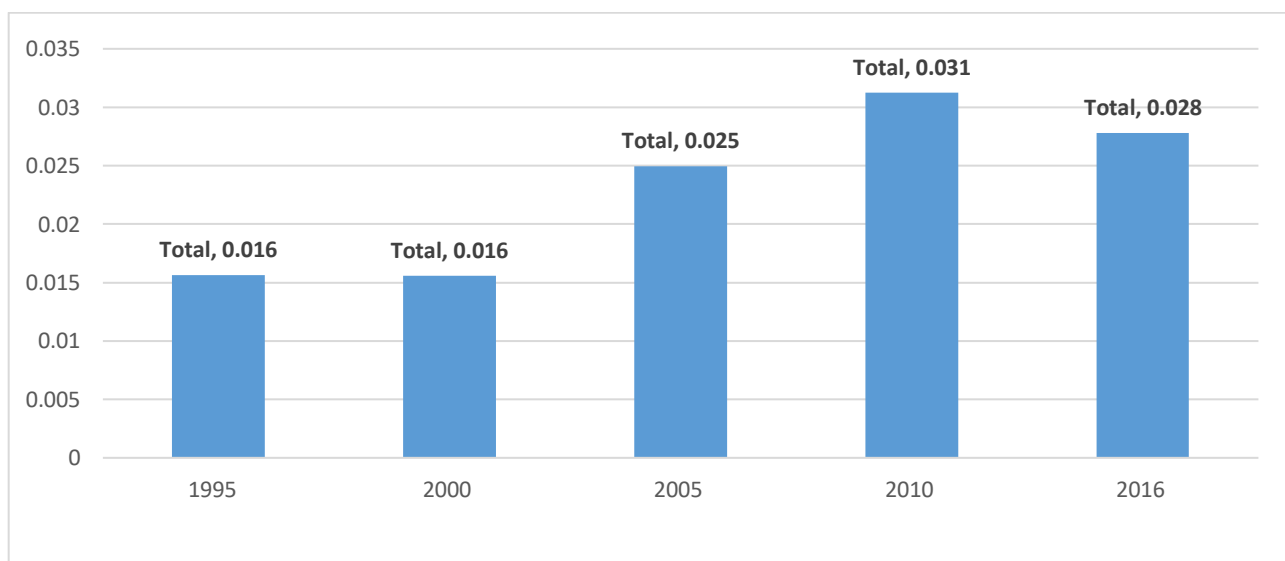
Figure 10: Export Sophistication



Source: ESCWA calculations based on COMTRADE data (accessed October 2018).

Egypt has recorded some improvement in specializing in products that are more sophisticated over the past decade and climbed five spots in global rankings.

Figure 11: Export Market Penetration Index



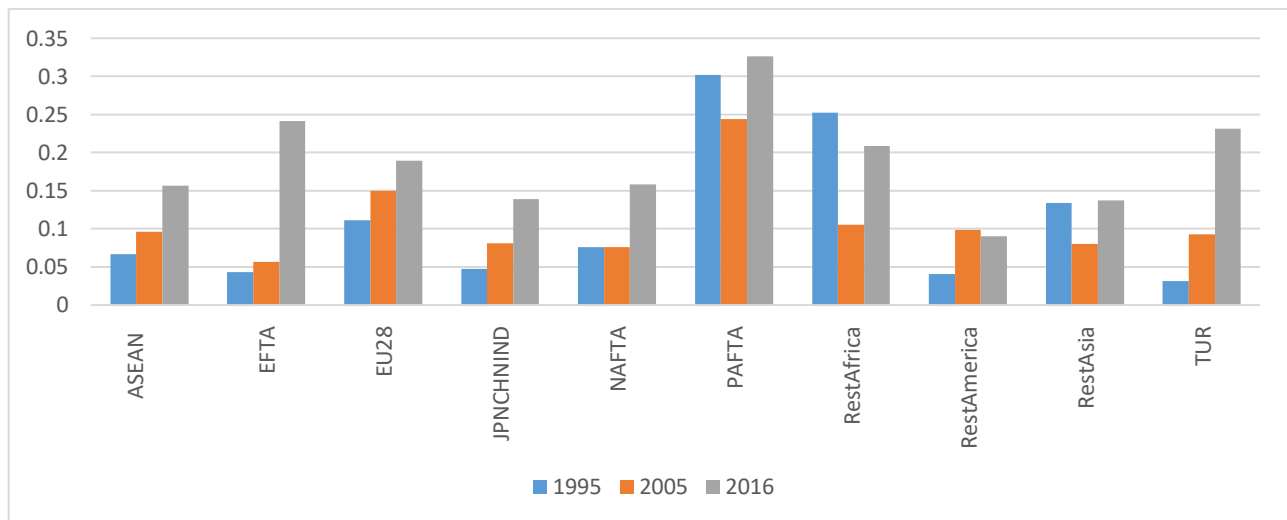
Source: ESCWA calculations based on COMTRADE data (accessed October 2018).

Egypt's penetration into export markets improved steadily between 1995 and 2010 and has deteriorated since 2010, as measured by the Export Market Penetration index. The index is

essentially the share of the actual number of export relationships (at the country-product level) forged by the country in question in the maximum possible number of export relationships it can form given its exports.

**The level of the index, however, remains rather low, reflecting the vast potential for Egypt to expand into new markets.**

Figure 12: Export Similarity Index



Source: ESCWA calculations based on COMTRADE data (accessed October 2018).

The export similarity index captures the extent to which two entities in question are competitors in a common market. The index value of zero suggests that there is no competition between the two countries and of one that they are perfect competitors. Based on the export similarity index, Egypt's main competitors in world markets are the PAFTA and EFTA countries and Turkey.

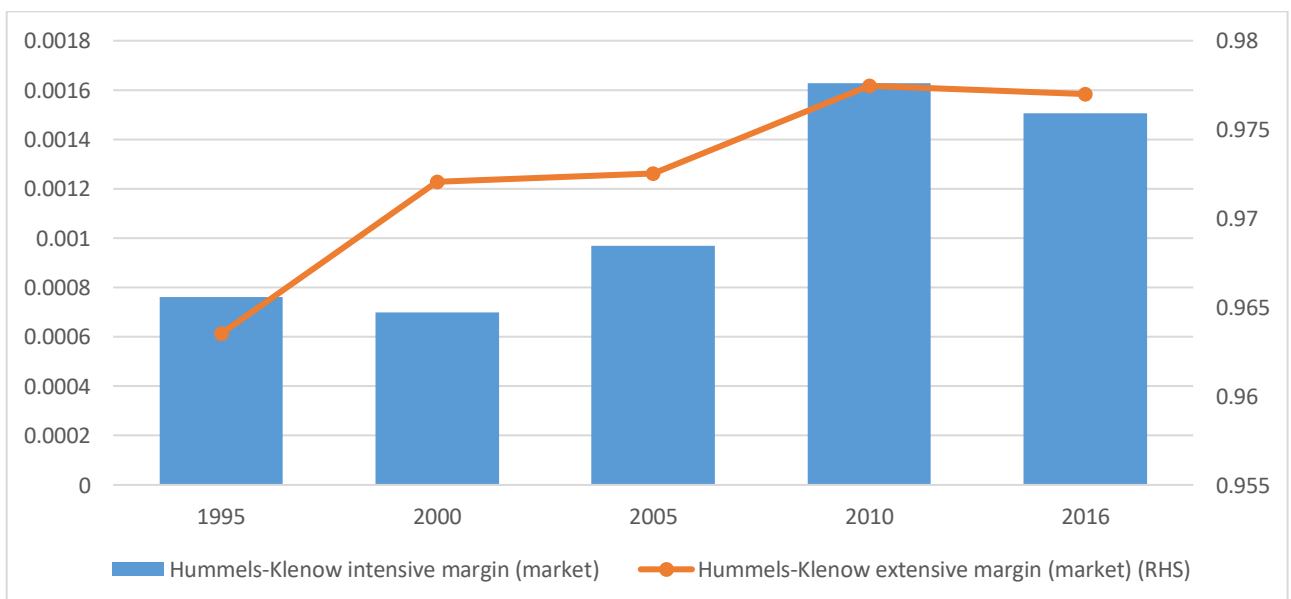
Figure 13: Hummels-Klenow intensive and extensive margins (product)



Source: ESCWA calculations based on COMTRADE data (accessed October 2018).

It is interesting to explore whether Egypt exports larger quantities or a greater variety of goods. To measure the first, the product-based Hummels-Klenow intensive margin could be employed, which essentially captures the share of Egypt's exports in the world exports of products that Egypt exports. This index reached almost 0.2 per cent as of 2010, after offsetting a decline between 1995 and 2000. Egypt also experienced a sizable increase, though moderated recently, in the share of the products Egypt exports in total world exports of all goods, also referred to as product-based Hummels-Klenow extensive margin and gives an indication of how comprehensive the set of goods a country exports is.

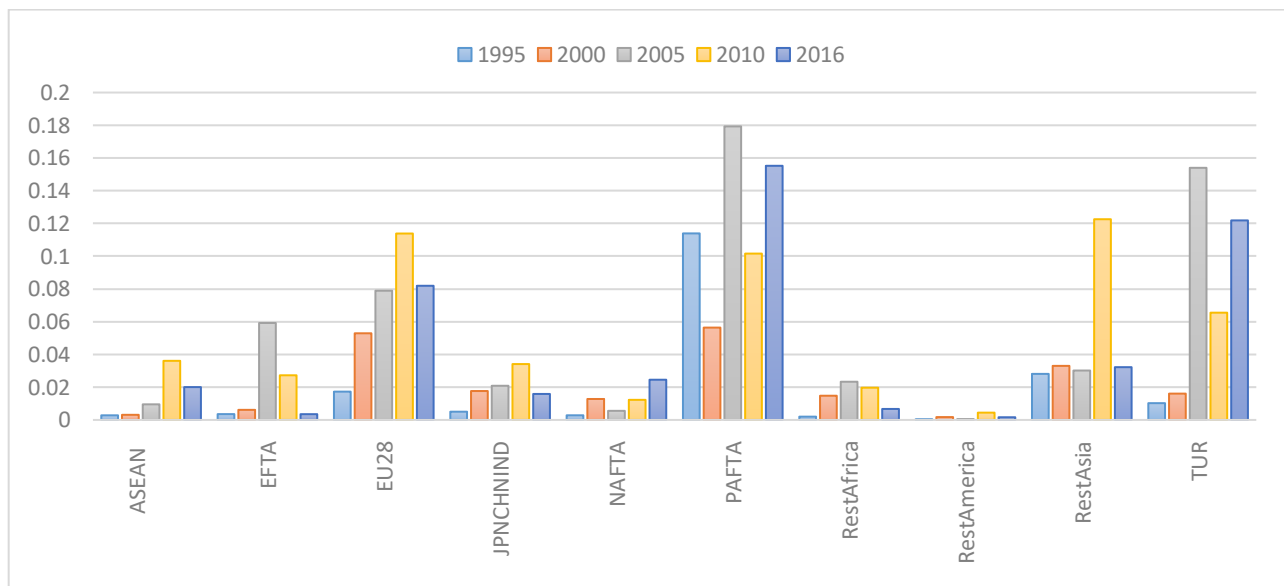
Figure 14: Hummels-Klenow intensive and extensive margins (market)



Source: ESCWA calculations based on COMTRADE data (accessed October 2018).

Similarly, it is equally instructive to see as to whether Egypt exports larger amounts to its existing trade partners or expands into new markets. As a measure of the former, Egypt's share in the total world exports to only those countries that Egypt exports to, also referred to as the market-based Hummels-Klenow intensive margin, almost doubled since 1995. Egypt has also made gains in increasing its share in the world exports to only those countries that Egypt exports to in total world exports of all goods, referred to as the market-based Hummels-Klenow extensive margin and captures the extent of expansion into new export markets.

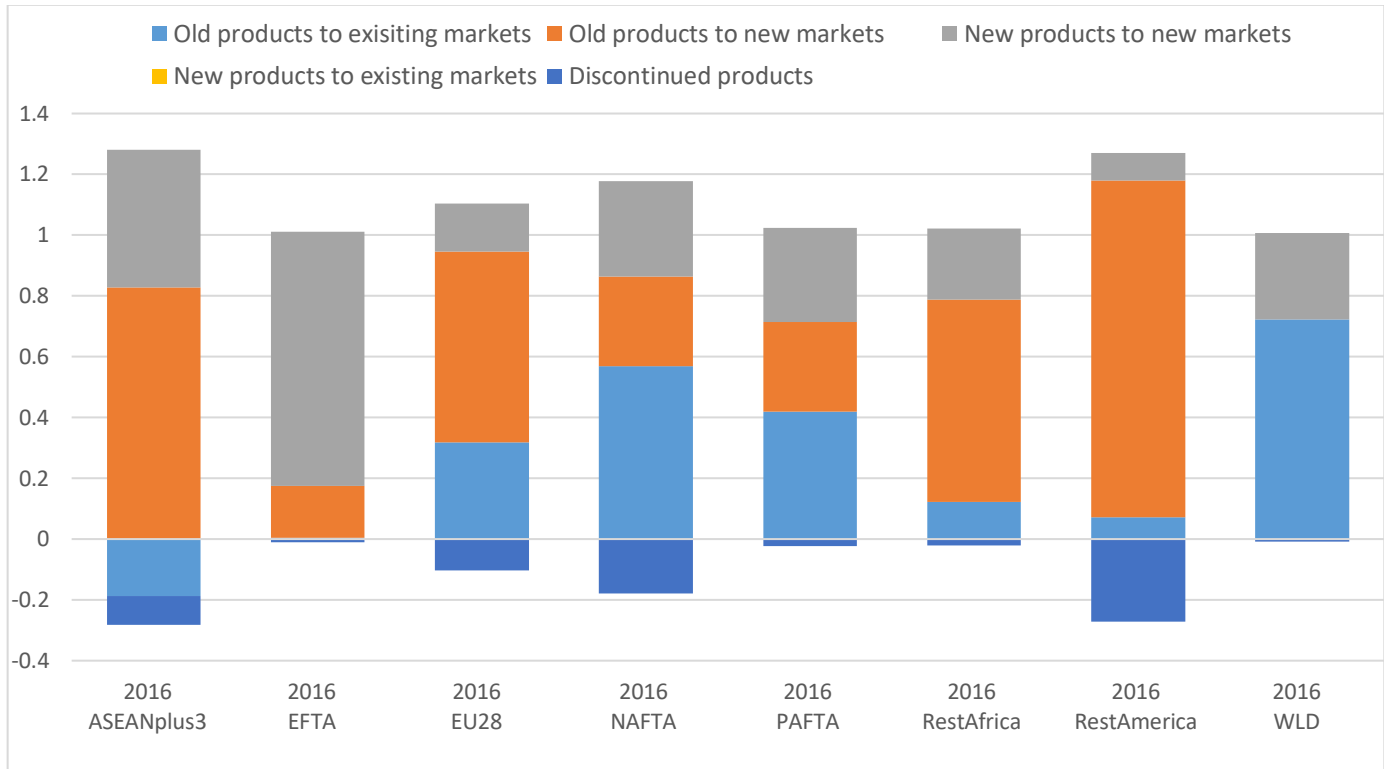
Figure 15: Intra-industry Trade Index



Source: ESCWA calculations based on COMTRADE data (accessed October 2018).

The intra-industry trade index measures the extent to which products that belong to the same industry were being traded between two countries, ranging between 0 and 1 and with values close to 1 corresponding to high level of intra industry trade. Egypt has engaged in intra-industry trade, though to a limited extent, with PAFTA and EU countries and Turkey.

Figure 16: The composition of the change in bilateral merchandise exports between 1999 and 2016 along intensive and extensive margins



Source: ESCWA calculations using COMTRADE data.

Notes: The abbreviations and the list of the countries included in each group are as follows. The Association of Southeast Asian Nations (ASEAN) is created using Indonesia, Malaysia, Philippines, Thailand, and Vietnam, not including Brunei, Cambodia, Laos, Myanmar, and Singapore. [to be completed]

Between 2000 and 2016, around one-fourth of the change in the exports of Egypt has come from expanding into new products and/or markets. This share is around 60% for the United Arab Emirates and Bahrain, and 25% for Viet Nam. Across different destinations, EFTA stands out as the destination to which Egyptian exports have been mostly new products. ASEAN+++ , African excluding PAFTA members, and American countries excluding NAFTA members have been dynamic markets for Egyptian exports, with high value shares of new products or markets.

**The EU and, to a lesser extent, NAFTA and PAFTA are relatively stagnant export markets, with a relatively low value share of new products.**

### III. Trade Policy

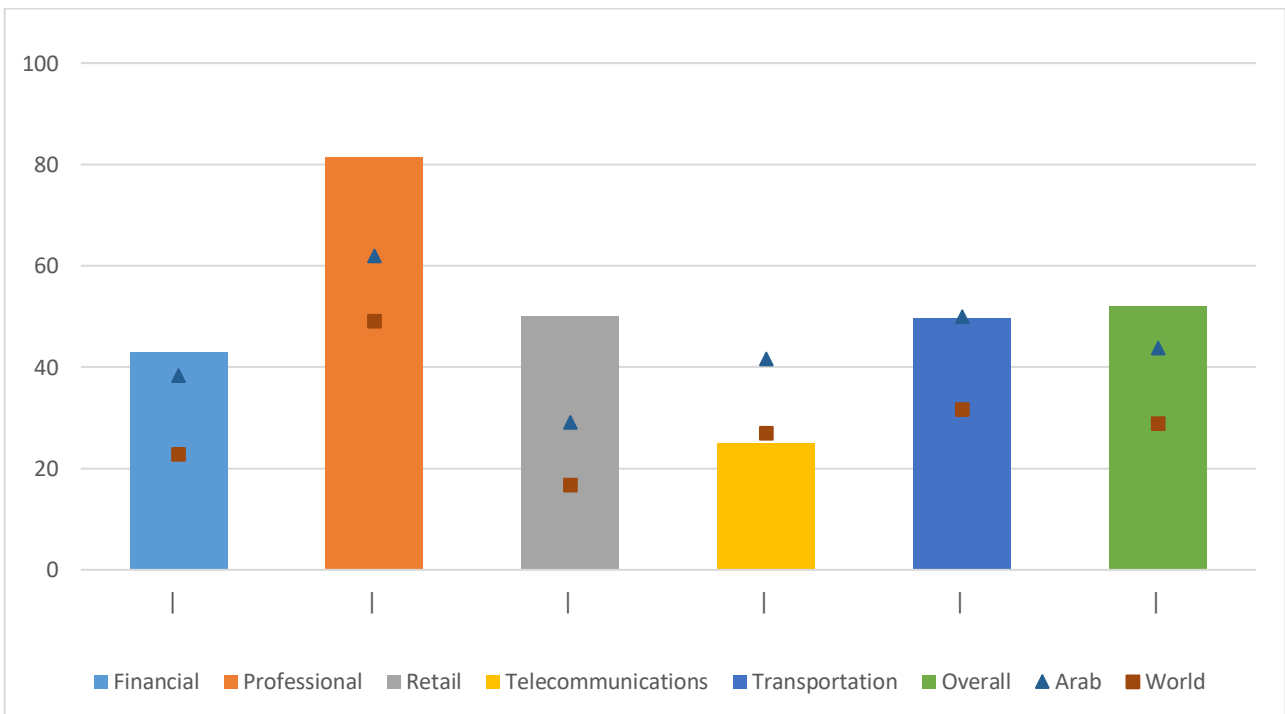
Figure 17: MFN and applied tariff rates for all products, simple and weighted means



Source: ESCWA calculations using the World Development Indicators database (accessed October 2018).

Egypt has significantly lifted tariff protection. Over the past two decades, both applied and MFN tariff rates have come down markedly and applied rates appear particularly low.

Figure 18: Services Trade Restrictiveness Index, 2010



Source: Borchert, Gootiz and Mattoo (2014).

The restrictiveness of policy and regulations on Egypt's services trade is nearly on par with other Arab countries but is more stringent than the world average. Egypt appears to have more restrictive policies and regulations in professional services and retail trade, while telecommunication services are fairly liberal.

## END NOTE

The global financial crisis of 2008 hit hard the trade performance of Egypt. It is only in 2015 that the country has claimed a significant recovery in its exports and its ability to attract foreign direct investment. The improvement in performance has been remarkable due to Egypt's ability to export new products and to penetrate new markets. It remains to be seen whether Egypt's performance will prove resilient in the face of changes in the macroeconomic climate marked by a sharp devaluation of the Egyptian pound and a sizable reduction in energy subsidies.