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## Moving Forward: Options to Enhance Economic Relations

The United States has a strong stake in Egypt's prosperity and with continuance of its economic reforms. New bilateral economic initiatives could build on and help "lock in" nascent Egyptian reforms.<sup>1</sup> US companies would benefit from Egypt's enhancing its business friendliness to US firms. They would also benefit from equalizing their access to the Egyptian market with that currently enjoyed by European and Arab firms under existing preferential trade pacts. For Egypt, deeper trade and investment ties with the United States mean not only expanded markets for its exports but also access to financial and technical resources that could help improve its economic infrastructure and create jobs for its young workforce.

For reasons set out in the previous chapter, a free trade agreement (FTA) between Egypt and the United States is unlikely, at least in the short term. However, the goal of enhancing trade and investment ties remains compelling and should be kept on the bilateral agenda.

This chapter sets out some steps that the two countries can take, outside of a formal FTA, to bolster their economic relations. We start with recom-

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1. Prime Minister Ahmed Nazif underscored this latter point in a speech in May 2005, saying that an FTA with the United States would set a high standard for economic policy and push Egypt to do better. He said the FTA would help set the context for fruitful economic relations for the governments and business community as well as for other civil society actors. See his remarks at the launch of the book *Anchoring Reform with a US-Egypt Free Trade Agreement* at the Institute for International Economics, Washington, May 17, 2005.

mentations to improve market access in goods both to enhance textile and apparel exports and to stimulate export activity in other sectors such as processed foods and stoneware. We also recommend directed opening in the services sector, partly through a targeted services trade agreement but also through modernization of the bilateral investment treaty (BIT) with a view to attracting US foreign direct investment (FDI) in the services sector.

Steps to enhance market access are important, and the above measures could serve as steps toward a future comprehensive free trade agreement. However, we consider as even more important to the US-Egypt economic partnership supplementary steps to help Egypt become more competitive. The second tranche of measures we recommend is in the area of trade facilitation. The US-Egypt partnership should identify the obstacles in the trade logistics chain that undercut Egypt's competitiveness. We focus on three main areas: customs procedures, intellectual property rights (recognizing that this has long been an active issue on the US agenda), and transparency. We look at how Egypt ranks in related indicators compared with other countries in the Middle East and North Africa (MENA) region as well as with an important set of challengers—its main competitors in the US textile and apparel market—and set out some suggestions.

Improving physical infrastructure and, especially, human capital—including addressing the issue of gender inequity—will lay the foundations for Egypt to enhance its international competitiveness and allow it to move into higher value-added activities. This will allow Egypt to have a more stable and sustainable economy and to play a reliable and robust regional role. These measures will enhance the US-Egypt business relationship regardless of whether a free trade agreement ever comes to fruition. Finally, we set out some ideas for how the US-Egypt partnership can help tackle the new issue of climate change.

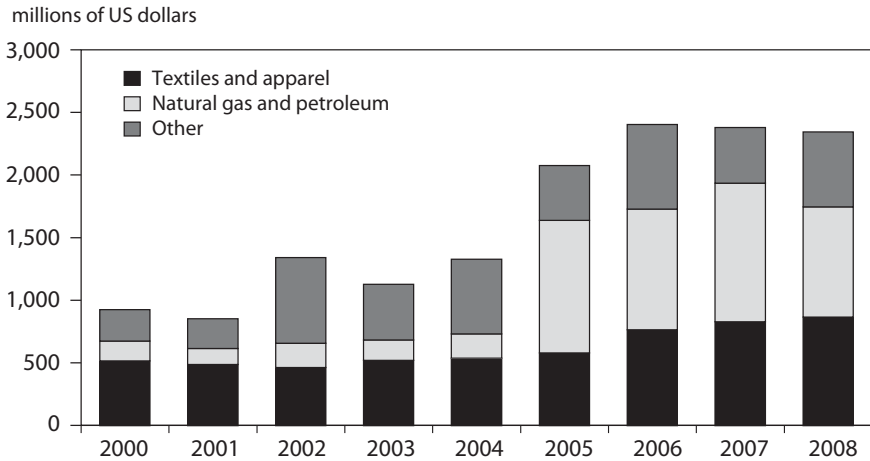
## **Enhancing Market Access in Goods: Expanding the QIZ**

The United States is Egypt's second largest market after the European Union. Expanded access to US customers could help Egypt offer jobs to its young and plentiful labor force and develop sustainable export industries. Increasing access to the US market could guard against a backlash to the economic reforms that could overturn these important policies.<sup>2</sup>

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2. Several studies suggest that countries that have increased their openness to trade have, on balance, experienced higher annual growth rates. See, for example, Wacziarg and Welch (2003); Wacziarg (1998); Alesina, Spolaore, and Wacziarg (2000); Ades and Glaeser (1999); Frankel and Romer (1999); Sachs and Warner (1995); Edwards (1992, 1993); Ben-David (1993); and Dollar (1992). Analysts who caution against attributing a causal relationship between openness and growth include Rodriguez and Rodrik (2000); Harrison and Hanson (1999); and Levine and Renelt (1992).

**Figure 3.1 US imports from Egypt, 2000–08**



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

The qualifying industrial zones (QIZ) agreement allows Egypt to export goods to the United States duty free provided that at least 35 percent of their value is added through processing in a designated QIZ. Of that 35 percent, a specified percentage must be Israeli content. The agreement significantly improves upon the duty-free access Egypt already enjoyed through the Generalized System of Preferences (GSP), allowing textiles and apparel, an important export sector for Egypt, to be imported duty free. The United States and Egypt can take a constructive step toward enhancing their commercial relations by improving the reach of the QIZ program to expand opportunities for additional textile and apparel firms and to encourage other sectors to participate.

As figure 3.1 shows, US imports of Egyptian goods jumped significantly from 2004 to 2005. In the first year of the QIZ, imports increased by 56 percent, largely as a result of purchases of liquefied natural gas (LNG), which grew by 400 percent. Non-LNG imports increased by 10 percent, with textiles and apparel growing by 8 percent. Textile and apparel imports grew significantly the following year, however, increasing by over 30 percent from 2005 to 2006. Since then, growth has flattened out to 8 percent in 2007 and 5 percent in 2008.

Egypt is one of the top 20 US suppliers of textiles and apparel.<sup>3</sup> Table 3.1 shows how Egypt compares with the 19 other developing-country top

3. According to USITC data, in 2008 Egypt was the 16th main foreign supplier to the United States of items in HS chapter 62 (articles of apparel and clothing accessories, not knitted or crocheted), the 26th main US supplier of HS 61 (articles of apparel and clothing accessories, knitted or crocheted), and 16th in HS 63 (made-up textile articles, not elsewhere specified or included).

**Table 3.1 Top 20 developing-country US apparel suppliers: Labor costs and market access, 2008**

<b>Supplier</b>	<b>Labor costs</b> (US dollars/hour)	<b>Labor costs compared with Egypt's labor cost</b> (US dollars/hour, Egypt = 1.00)	<b>Rank as US supplier of textiles and apparel</b>	<b>Preferential access to US market?</b>
China (Inland)	0.55 to 0.80	0.81	1	No
China (Coastal 2)	0.86 to 0.94	1.08	1	No
China (Coastal 1)	1.08	1.30	1	No
Vietnam	0.38	0.46	2	No
Indonesia	0.44	0.53	3	No
Mexico	2.54	3.06	4	NAFTA
Bangladesh	0.22	0.27	5	No
India	0.51	0.61	6	No
Honduras	1.72 to 1.82	2.13	7	CAFTA-DR
Cambodia	0.33	0.40	8	No
Thailand	1.29 to 1.36	1.60	9	No
El Salvador	1.79	2.16	10	CAFTA-DR
Pakistan	0.37	0.45	11	No
Sri Lanka	0.43	0.52	12	No
Guatemala	1.65	1.99	13	CAFTA-DR
Philippines	1.07	1.29	14	No
Jordan	1.01	1.22	16	QIZ and FTA
Nicaragua	0.97 to 1.03	1.20	17	CAFTA-DR
Dominican Republic	1.55 to 1.95	1.75	18	CAFTA-DR
Peru	1.78	2.14	19	FTA
<b>Egypt</b>	<b>0.83</b>	<b>1.00</b>	<b>20</b>	<b>QIZ</b>

CAFTA-DR = Central American Free Trade Agreement-Dominican Republic

QIZ = qualifying industrial zone

FTA = free trade agreement

Note: The table shows the developing countries in the top 20 grouping; Italy, the only advanced country, is excluded.

Sources: Jassin O'Rourke Group (2008); US Department of Commerce, Office of Textiles and Apparel, for data by category for all countries, total apparel imports.

suppliers of apparel.<sup>4</sup> In 2008 Egypt was ranked 18th out of the 20, but was one of only seven of these top countries whose US imports grew from 2007 to 2008.

Many of Egypt's competitors in apparel, listed in table 3.1, are in the top 20 without enjoying preferential access to the US apparel market. Column

4. Italy and Canada are also top suppliers of apparel to the United States, but the tables in this chapter focus on comparing the top developing-country suppliers.

4 of the table lists preferential trade programs enjoyed by importers. These include the North American Free Trade Agreement (NAFTA), the Central American Free Trade Agreement–Dominican Republic (CAFTA–DR), the US–Jordan Free Trade Agreement and QIZ, and the Egypt QIZ. Of the top six importers, five—China, Vietnam, Indonesia, Bangladesh, and India—enjoy no preferential access. Although Egypt’s labor costs are five times the costs in the lowest-cost producer, in general they are low compared with the other countries in the table. Table 3.1 also shows the hourly labor costs in each country and how they compare with Egypt’s labor costs (column 3). Egypt’s labor costs make it the eighth lowest-cost supplier on the list. Egypt’s preferential access to the US market should offer an additional cost advantage over the others on the list. Expansion of the QIZ could help Egypt gain advantage over some of the lower-labor cost countries in this table and increase its position in the US market.

The QIZ program has been expanded since the original agreement was implemented. In October 2007 Egypt and Israel agreed to reduce the minimum percentage of Israeli components necessary for certain Egyptian products to gain duty-free access into the United States from 11.7 to 10.5 percent. Further reducing the required Israeli content to a level commensurate with that of the Jordan agreement, which requires only 8 percent Israeli content, could help to bolster the competitiveness of Egyptian QIZ products. Jordan, whose labor costs are 20 percent higher than Egypt’s, ranks higher as a US supplier of textiles and apparel.

Egypt has also requested the establishment of eight additional QIZs, mostly in the southern part of the country. Israel indicated support for this request, and both countries signed a letter requesting US approval. On January 26, 2009, the USTR announced the designation of two additional QIZs. As of November 2009, approval from the USTR on the other zones was pending.

Approving additional QIZs would allow more firms to participate and generate more Egyptian jobs. Increased geographic coverage would be beneficial. A US Agency for International Development (USAID) study of Egypt’s ready-made garment sector (Marello, O’Dell, and Salinger 2009) cited the location of factories far from sources of appropriate labor supply as one reason why Egypt has not fulfilled its competitive potential in this sector. Additional QIZs could enable other firms to join the program, particularly in industries where transportation costs factor significantly in the cost of production.

Another positive step would be to encourage firms that produce goods other than textiles, particularly those producing higher value-added goods, to locate in QIZs. Our assessment of Egypt’s revealed comparative advantage (RCA), a measure of relative export performance, indicates a number of industries that could benefit from expanded market access. RCA is calculated by taking the country’s percentage share of a given sector in national exports divided by the percentage share of a given sector

in world exports, thus comparing the national export structure with the world's export structure.<sup>5</sup> When the RCA equals 1 for a given sector in a given country, that country's share of the given sector is identical to the world average. The country has neither an advantage nor a disadvantage. Scores higher than 1 indicate that the country is specialized in that sector, with a strength in that sector, and scores lower than 1 indicate sectors of relative weakness or sectors in which the country is not specialized.

Egypt started off the decade with an RCA of nearly 3.5 in textiles and textile articles. This advantage dropped steeply in 2005. Egypt's textiles score remains over 1 in 2007, but only slightly, indicating that while textiles remain an area of potential comparative advantage, this advantage is very weak. Additional cost reductions, in the form of greater preferential access to the US market, could help this sector remain competitive.

In addition to textiles, whose RCA has been eroding, Egypt currently exhibits an RCA in vegetable products, mineral products, articles of stone and similar materials, precious and semiprecious stones, and food and beverages (table 3.2). While textile exports to the United States have grown, other industries have not benefited the same way from the implementation of the QIZ agreement. Exports of food—an industry also identified in table 3.2 as an RCA sector—have actually contracted since the QIZ was put in place. Its RCA value fell from a high of 2.59 in 2004 to 0.59 in 2007. Within this category, frozen vegetable mixtures show the greatest dynamism, growing to a million dollars worth of exports in 2007.

In addition to enhancing Egypt's access to the US market, a principal goal of the QIZ program is to foster regional integration. The QIZ aims to increase cooperation between Egyptian and Israeli companies, with Israel providing inputs such as buttons, zippers, and patterns for clothes manufactured by lower-cost Egyptian labor, then sent duty-free to the United States.

In fostering greater regional integration, the United States could consider, as part of an overall MENA trade strategy, revising the rules of origin to determine qualification for tariff preferences so that goods originating in other MENA partners are also covered. A MENA-wide QIZ, built upon the Egypt QIZ, could benefit Egypt by allowing Egyptian firms to source from potentially lower-cost suppliers. Of the small sample of MENA countries with data on manufacturing wages—Bahrain, Egypt, Israel, Jordan, and Qatar—Israel's costs are by far the highest, with the next most expensive, Qatar, at only 40 percent of Israel's costs.<sup>6</sup> Such an initiative could help boost regional integration in the MENA by encouraging enhanced private-sector ties among these countries.

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5. The RCA was first calculated in Balassa (1965).

6. Data are from the International Labor Organization's LABORSTA Database, <http://laborsta.ilo.org>.

Some might raise a concern about the compatibility of such an arrangement with rules of the World Trade Organization (WTO).<sup>7</sup> Under the WTO's most favored nation (MFN) principle, countries must extend the most favorable trade treatment granted to any WTO member to all other WTO members. However, there are numerous exceptions for preferential trade programs for developing countries. Some preferential schemes must be endorsed by the WTO as legal exceptions to the MFN principle through a time-limited waiver (the GSP as well as the SPARTECA programs are permanent exceptions under the 1979 Enabling Clause). Others qualify under the terms of GATT Article XXIV on FTAs and customs unions. The United States could present a MENA-wide preferential program, similar to the African Growth and Opportunity Act (AGOA).<sup>8</sup> However, such waivers have been increasingly difficult to obtain—particularly if the beneficiaries are not least developed countries (LDCs).

A second route to obtaining WTO compatibility would be to see a MENA-wide QIZ as part of a transition toward a US-MENA free trade agreement. In this case the agreement would be subject to the conditions of Article XXIV: It would need to cover “substantially all” trade; be enacted within a “reasonable” period of time, generally about ten years; and not raise barriers to other WTO members.

A US-Egypt FTA may seem an unlikely prospect in the short run. Chapter 2 details the steps taken earlier toward such an agreement, which did not materialize, and the current political difficulties of initiating FTA negotiations. The economic benefits of an FTA remain compelling, however. A US-Egypt FTA would increase Egypt's real GDP by between 1.8 and 2.8 percent (Hoekman and Konan 2005), raising the return to labor in Egypt by between 2 and 3 percent. The magnitude of the gains depends upon whether the agreement eliminated only border barriers (the low estimates) or also reciprocally removed all nontariff barriers to trade in goods and services (the high estimates).<sup>9</sup> For that reason alone, this option should remain open on the bilateral agenda, at least in the medium term.

In addition to the political difficulties of initiating new FTAs, it is likely that the bar on any new FTAs will be higher than for previous partners.

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7. See, for example, International Centre for Trade and Sustainable Development (ICTSD), “US, Egypt, Israel Sign 3-Way Trade Pact; May Fall Foul of WTO,” *Bridges Weekly Trade News Digest* 8, no. 43 (December 15, 2004).

8. In March 2009, the WTO Council for Trade in Goods approved a request to extend the waiver for AGOA (as well as for other US preference programs, the Caribbean Basin Economic Recovery Act and the Andean Trade Preference Act). AGOA was extended to 2015.

9. Dean DeRosa (2003) predicts even larger gains in terms of Egypt's exports. Ahmed Galal and Robert Z. Lawrence (2004) find Egypt to be a strong FTA partner in terms of relative political importance and the potential of boosting reforms in partner countries. Bernard Hoekman, Denise Konan, and Keith Maskus (1998) find that in the absence of an FTA with the United States, EU and Arab country FTAs would result in trade diversion, to the tune of about \$1.5 billion.

**Table 3.2 Egypt's revealed comparative advantage (RCA) index by HS section, 1996–2007** (index value)

HS section	HS section description	1996	1997
I	Live animals; animal products	<i>0.25</i>	<i>0.17</i>
II	Vegetable products	<b>3.26</b>	<b>2.35</b>
III	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes	<i>0.35</i>	<i>0.01</i>
IV	Prepared foodstuffs; beverages, spirits, and vinegar; tobacco and manufactured tobacco substitutes	<i>0.38</i>	<i>0.62</i>
V	Mineral products	<b>5.91</b>	<b>6.45</b>
VI	Products of the chemical or allied industries	<i>0.59</i>	<i>0.66</i>
VII	Plastics and articles thereof; rubber and articles thereof	<i>0.27</i>	<i>0.16</i>
VIII	Raw hides and skins, leather, furskins and articles thereof; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut (other than silkworm gut)	<i>0.32</i>	<i>0.25</i>
IX	Wood and articles of wood; wood charcoal; cork and articles of cork; manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork	<i>0.15</i>	<i>0.03</i>
X	Pulp of wood or of other fibrous cellulosic material, waste and scrap of paper or paperboard; paper and paperboard and articles thereof	<i>0.20</i>	<i>0.17</i>
XI	Textiles and textile articles	<b>3.36</b>	<b>3.42</b>
XII	Footwear, headgear, umbrellas, sun umbrellas, walking sticks, seatsticks, whips, riding crops and parts thereof; prepared feathers and articles made therewith; artificial flowers; articles of human hair	<i>0.34</i>	<i>0.11</i>
XIII	Articles of stone, plaster, cement, asbestos, mica or similar materials; ceramic products; glass and glassware	<i>0.87</i>	<b>2.88</b>
XIV	Natural or cultured pearls, precious and semiprecious stones, precious metals, metals clad with precious metals, and articles thereof; imitation jewelry; coins	<i>0.90</i>	<b>1.37</b>
XV	Base metal and articles of base metal	<i>0.96</i>	<i>0.80</i>
XVI	Machinery and mechanical appliances; electrical equipment; parts thereof; sound recorders and reproducers; television image and sound recorders and reproducers, and parts and accessories of such articles	<i>0.01</i>	<i>0.01</i>
XVII	Vehicles, aircraft, vessels and associated transport equipment	<i>0.01</i>	<i>0.06</i>
XVIII	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; clocks and watches; musical instruments; parts and accessories thereof	<i>0.14</i>	<i>0.00</i>
XIX	Arms and ammunition; parts and accessories thereof	<i>0.00</i>	<b>5.10</b>
XXI	Works of art, collectors' pieces and antiques	<b>1.95</b>	<b>1.15</b>

HS = Harmonized Schedule

Note: Figures in bold are comparative advantage and in italics are comparative disadvantage.

Source: Authors' calculations based on UNComtrade Database via World Integrated Trade Solution; US International Trade Commission (USITC) Interactive Tariff and Trade Dataweb, <http://dataweb.usitc.gov>.

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
0.17	0.31	0.14	0.14	0.23	0.30	0.27	0.30	0.22	0.23
<b>4.30</b>	<b>3.38</b>	<b>3.41</b>	<b>4.06</b>	<b>3.61</b>	<b>3.13</b>	<b>4.08</b>	<b>3.92</b>	<b>3.30</b>	<b>3.62</b>
0.01	0.02	0.02	0.01	0.01	0.02	0.01	0.02	0.01	0.19
0.66	0.63	0.81	0.99	<b>1.52</b>	<b>2.07</b>	<b>2.59</b>	<b>2.37</b>	<b>1.86</b>	0.59
<b>5.30</b>	<b>5.48</b>	<b>4.18</b>	<b>4.54</b>	<b>4.10</b>	<b>4.74</b>	<b>4.32</b>	<b>4.68</b>	<b>5.17</b>	<b>5.15</b>
0.87	0.94	0.77	0.81	0.62	0.67	0.61	0.59	0.62	0.28
0.19	0.24	0.22	0.38	0.31	0.16	0.18	0.15	0.06	0.78
0.25	0.20	0.23	0.24	0.14	0.10	0.13	0.15	0.20	0.46
0.03	0.02	0.02	0.02	0.04	0.02	0.02	0.02	0.01	0.13
0.32	0.27	0.23	0.39	0.29	0.26	0.16	0.28	0.20	0.21
<b>4.57</b>	<b>4.21</b>	<b>3.47</b>	<b>3.14</b>	<b>3.16</b>	<b>2.63</b>	<b>2.49</b>	<b>1.37</b>	0.98	<b>1.06</b>
0.44	0.80	0.36	0.48	4.24	0.49	<b>1.79</b>	0.63	0.75	0.02
<b>1.65</b>	<b>1.94</b>	<b>7.48</b>	<b>2.07</b>	<b>4.24</b>	<b>2.78</b>	<b>1.89</b>	<b>1.07</b>	<b>2.84</b>	<b>1.61</b>
<b>1.74</b>	<b>1.08</b>	<b>1.53</b>	<b>1.86</b>	<b>2.89</b>	<b>3.36</b>	<b>3.65</b>	<b>3.16</b>	<b>3.53</b>	0.35
0.88	0.83	0.67	0.81	0.77	0.46	0.52	0.48	0.31	0.96
0.01	0.01	0.02	0.02	0.01	0.01	0.01	0.01	0.01	0.01
0.02	0.02	0.01	0.00	0.01	0.01	0.04	0.04	0.01	0.01
0.00	0.00	0.11	0.12	0.00	0.11	0.00	0.14	0.00	0.01
<b>5.11</b>	<b>5.67</b>	0.00	0.00	<b>5.73</b>	0.00	<b>5.81</b>	0.00	<b>10.06</b>	0.00
0.88	0.88	0.75	0.81	<b>1.37</b>	<b>1.71</b>	0.92	0.33	0.00	0.01

The Obama administration will almost certainly subject any new version of trade promotion authority or future trade agreements to higher standards on labor and the environment than those in existing FTAs. President Obama has clearly indicated support for including environment, labor, and other conditions in trade agreements, pledging to find ways in which trade can help advance “a cleaner environment, a stronger response to the challenge of climate change and more sustainable natural resources and energy supplies.”<sup>10</sup> The FTAs will likely also include additional conditions in areas such as democracy and human rights.<sup>11</sup>

The US-Peru Free Trade Agreement is likely to set the stage for labor and environmental provisions. Congress ratified the pact in December 2007 after Peru agreed to modify the agreement to incorporate provisions contained in the bipartisan agreement on trade in May 2007 between congressional leaders and the Bush administration.<sup>12</sup> The Peru agreement contains all of the provisions on labor rights found in previous trade agreements plus additional obligations to implement the International Labor Organization’s (ILO) core labor standards and augment enforcement of domestic labor laws. It also incorporates a cooperation and capacity building mechanism and ramps up transparency by tasking its Labor Affairs Council to develop guidelines for public submissions on labor issues.<sup>13</sup> Most importantly, these obligations are now subject to monitoring and enforcement under the agreement’s dispute settlement mechanism.

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10. Office of the US Trade Representative, *2009 Trade Policy Agenda and 2008 Annual Report of the President of the United States on the Trade Agreements Program*, February 2009, available at [www.ustr.gov](http://www.ustr.gov).

11. On the former two issues, all recent US FTAs include provisions on labor and the environment. The North American Free Trade Agreement (NAFTA) incorporated such provisions through two additional side agreements negotiated after the original agreement had already been finalized. The first US FTA to include labor and environment as part of the agreement’s core text was the 2000 US-Jordan FTA, which mandated both parties to uphold their existing laws and not relax those laws in order to encourage trade. Negotiators learn by doing, and subsequent FTAs (US-Singapore 2003, US-Chile 2003, US-Australia 2004, US-Morocco 2004, CAFTA-DR 2004, and US-Bahrain 2004) have built upon and improved the original NAFTA model. The US-Chile FTA and CAFTA-DR both contain language stating that domestic laws should not be weakened in order to attract trade and investment. CAFTA-DR established new institutional mechanisms—a Labor Affairs Council and an Environmental Affairs Council—to facilitate consultations and a capacity-building initiative. The agreement set up rosters of experts who could serve as panelists for disputes in the areas of labor or environment. The US-Bahrain agreement establishes the possibility of setting up a Subcommittee on Labor Affairs as well as a Subcommittee on Environmental Affairs and a Labor Cooperation Mechanism.

12. For an analysis of this agreement, see Destler (2007).

13. In an October speech, then-senator Obama stated that “The Peruvian agreement contains the very labor agreements that labor and our allies have been asking for. . . . What I’m

Like most developing countries, Egypt has traditionally opposed including labor standards on the multilateral trade agenda, individually and as a member of the Group of Fifteen (G-15) developing countries.<sup>14</sup> However, in a poll commissioned by the Chicago Council on Global Affairs in August 2008, 93 percent of Egyptians polled agreed that trade agreements should include minimum standards for the protection of the environment and 77 percent felt that trade agreements should include minimum standards for working conditions.<sup>15</sup> Egypt has ratified the ILO's conventions on the four fundamental principles and rights at work. However, critics claim that implementation of these conventions has been less than complete.<sup>16</sup> Such data suggest that US and Egyptian officials could find common ground for pursuing initiatives to improve working conditions in both countries.

Finally, before granting any extension of US trade preferences to Egypt, the USTR would need to consider the impact on other beneficiaries of development-oriented preference schemes, particularly the LDCs. Table 3.3 disaggregates the top 20 goods imported by the United States from Egypt under the QIZ program. The first three, all apparel, comprise over half of the total QIZ imports. The most significant item, in terms of value, that Egypt exports under the QIZ is men's or boys' trousers, bib and brace overalls, breeches and shorts of cotton, not knitted or crocheted (HS 620342). Egypt's exports of this item to the United States have grown by over 42 percent per year since 2005, and Egypt's share of US imports has grown from 1.2 percent in 2005 to 3.4 percent in 2008.

At the same time, imports from AGOA recipients declined by 16 percent and imports from the Caribbean Basin Trade and Partnership Act

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saying is that the same provisions that we fought for—and that the AFL-CIO and other labor organizations had been asking for and that weren't contained in NAFTA—they are in this agreement" (Philip Elliott, "Obama says only outsider can bring changes that rivals have failed to enact," Associated Press, October 9, 2007, available at [www.barackobama.com](http://www.barackobama.com)).

14. In response to President Clinton's suggestion at the 1999 Seattle trade ministerial that sanctions should be used to enforce labor standards, Egyptian Trade Minister Youssef Boutros Ghali was famously quoted as saying, "If you start using trade as a lever to implement nontrade related issues . . . that will be the end of the multilateral trading system—maybe not this year, but in 10 to 15 years" (Boutros Ghali quoted in Steven Greenhouse and Joseph Kahn, "US Efforts to Add Labor Standards to Agenda Fail," *New York Times*, December 3, 1999).

15. *Muslims Positive About Globalization, Trade*, WorldPublicOpinion.org, August 2008. The poll was conducted by WorldPublicOpinion.org in six nations with predominantly Muslim populations in different regions of the world including Egypt, Turkey, Azerbaijan, Iran, Indonesia, and the Palestinian Territories, plus the Muslim population of Nigeria.

16. One study found that 16 percent of 83 textiles and ready-made garments firms employ child labor and that firms with child labor export more than half of their output (Ghoneim and Grote 2006).

**Table 3.3 Top 20 US imports from Egypt produced under qualifying industrial zones, 2005–08**

HTS code	Commodity description	Imports (millions of US dollars)				Growth 2007–08 (percent)	Percent of total, 2008 (percent)
		2005	2006	2007	2008		
620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts of cotton, not knitted or crocheted	61	151	165	176	6.9	20
620462	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton, not knitted or crocheted	51	117	143	155	8.2	18
611020	Sweaters, pullovers, sweatshirts, vests and similar articles of cotton, knitted or crocheted	30	58	68	69	1.5	8
270900	Petroleum oils and oils from bituminous minerals, crude	0	0	0	47	n.a.	5
271111	Natural gas, liquefied	0	0	0	43	n.a.	5
610910	T-shirts, singlets, tank tops and similar garments of cotton, knitted or crocheted	7	29	31	39	26.9	4
611030	Sweaters, pullovers, sweatshirts, vests and similar articles of man-made fibers, knitted or crocheted	8	29	27	37	35.6	4
610510	Men's or boys' shirts of cotton, knitted or crocheted	12	36	38	34	-8.9	4
630260	Toilet and kitchen linen of cotton terry toweling or similar cotton terry fabrics	0	10	20	22	10.7	3
620520	Men's or boys' shirts of cotton, not knitted or crocheted	3	16	14	21	49.9	2
610462	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton, knitted or crocheted	3	16	20	20	1.9	2
630231	Bed linen (other than printed) of cotton, not knitted or crocheted	11	18	17	16	-3.4	2
610711	Men's or boys' underpants and briefs of cotton, knitted or crocheted	2	6	10	12	20.8	1
620341	Men's or boys' trousers, bib and brace overalls, breeches and shorts of wool or fine animal hair, not knitted or crocheted	0	0	2	12	464.1	1
620343	Men's or boys' trousers, bib and brace overalls, breeches and shorts of synthetic fibers, not knitted or crocheted	0	4	15	10	-32.4	1
620463	Women's or girls' trousers, bib and brace overalls, breeches and shorts of synthetic fibers, not knitted or crocheted	2	6	10	10	-4.5	1
611120	Babies' garments and clothing accessories of cotton, knitted or crocheted	3	8	9	8	-3.7	1
610610	Women's or girls' blouses and shirts of cotton, knitted or crocheted	2	4	8	8	-6.1	1
620530	Men's or boys' shirts of man-made fibers, not knitted or crocheted	4	10	14	7	-49.0	1
620920	Babies' garments and clothing accessories of cotton, not knitted or crocheted	5	16	10	7	12.0	1
	Total West Bank, Gaza, and qualifying industrial zones	266	643	740	874	18.0	

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

**Table 3.4 US imports of men's or boys' trousers, bib and brace overalls, breeches and shorts of cotton, not knitted or crocheted, 2004–08**  
(thousands of US dollars)

<b>Import program</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2005–08</b> (percent)
<b>Preference programs</b>						
African Growth and Opportunity Act (excluding Generalized System of Preferences)	278,061	254,572	227,000	201,337	153,103	-16
Andean Trade Preference Act	97,165	156,473	140,815	98,714	85,918	-18
Caribbean Basin Trade and Partnership Act	800,350	733,569	452,189	128,281	50,914	-59
West Bank, Gaza, and qualifying industrial zones (QIZs)						
Egypt	0	61,337	150,881	164,673	176,092	42
Jordan	47,839	46,139	27,401	4,214	2,253	-63
Gaza Strip	63	0	0	1,283	2,180	n.a.
West Bank	0	0	0	0	0	n.a.
Subtotal	47,902	107,476	178,282	170,170	180,526	19
<b>US bilateral free trade agreements</b>						
Australia	0	149	120	66	51	-30
Bahrain	0	0	1,909	14,960	12,478	n.a.
Chile	4,018	2,839	2,109	316	0	-100
Israel	4,629	392	161	114	44	-52
Jordan	2,295	18,129	23,716	26,603	25,188	12
Morocco	0	0	2,287	1,871	1,359	n.a.
Singapore	165	2	61	2	24	129
<b>Regional free trade agreements</b>						
NAFTA	1,412,559	1,427,581	1,322,107	1,210,211	1,175,379	-6
CAFTA-DR	0	0	145,526	343,848	328,449	n.a.
<b>No program claimed</b>						
Bangladesh	185,535	307,149	529,870	625,832	817,419	39
China	115,478	390,104	420,186	559,391	590,372	15
India	88,256	131,430	183,360	226,111	216,339	18
Pakistan	90,391	115,094	134,372	201,690	221,081	24
Vietnam	135,794	135,742	201,983	233,082	254,135	23
Subtotal	2,172,885	2,408,717	2,847,764	3,076,809	2,099,347	-4
<b>Total</b>	<b>4,820,029</b>	<b>5,109,898</b>	<b>5,344,046</b>	<b>5,273,300</b>	<b>5,188,296</b>	<b>1</b>

NAFTA = North American Free Trade Agreement

CAFTA-DR = Central American Free Trade Agreement-Dominican Republic

n.a. = not available

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

(CBTPA) countries fell by 59 percent (table 3.4). While some of this decline may be linked to Egypt's extended preferences, AGOA and CBTPA countries are more likely to have been affected by the increase in imports from non-preference-receiving Asian countries. Bangladesh sells 4.6 times

more and China 3.4 times more than Egypt does to the United States; US imports from these countries grew by 39 and 15 percent per year, respectively. Another likely source of AGOA and CBTPA competition is CAFTA-DR, which largely took effect in 2006.<sup>17</sup> US imports from CAFTA-DR in 2008 were nearly twice those from Egypt, growing over 125 percent from 2006 to 2008. A more likely competitor for Egypt's share of the US market would be Jordan, whose exports under the QIZ program dropped 91 percent from 2005 to 2007. This was partially offset by an increase in US imports under the US-Jordan FTA, but in total, US imports of Jordanian clothing of this type fell by 52 percent.

To complement the increased market access gained through an expanded QIZ or GSP, Egypt and the United States should work together to stimulate trade in areas other than textiles. Given Egypt's low labor costs relative to many of its textile and apparel competitors, plus its enhanced market access through the QIZ, it is notable that Egypt occupies such a low spot in table 3.1. It is clear that market access is not the only issue to be considered in stimulating Egypt's exports to the United States. Increasing market access can certainly help Egypt get more of a leg up on other competitors and can, if coupled with appropriate complementary policies, help create sustainably competitive firms and thus more jobs. However, additional measures are needed to bolster Egypt's competitiveness in textiles and apparel and to stimulate its export reach into other areas. These will be examined in the next sections.

## Stimulating Services Trade through a US-Egypt Services Trade Agreement

Services comprise about 45 percent of Egypt's GDP and account for more than half of the country's formal-sector jobs. Developments in the services sector have a significant impact on the overall economy. Firms' competitiveness is determined in part by their access to high-quality and low-cost services. Services are also fundamental to successful international integration. Particularly in a global economy, the access to and quality of producer services such as telecommunications, transport, distribution, and financial intermediation can have a profound effect on the competitiveness of domestic firms. Bernard Hoekman (2006) surveys the literature on services liberalization and concludes that liberalization of services can yield significant gains for the economy, potentially more than goods liberalization. Hoekman finds that greater competition in services markets

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17. The dates of implementation of CAFTA-DR are March 1, 2006 (El Salvador); April 1, 2006 (Honduras and Nicaragua); July 1, 2006 (Guatemala); and March 1, 2007 (Dominican Republic). Costa Rica implemented the agreement in January 2009.

removes cost inefficiencies and produces welfare gains in the range of 6 to 8 percent of GDP.<sup>18</sup>

Services sector liberalization generally involves the elimination of monopolies, privatization of state-held firms, elimination of regulatory barriers to market entry, and development of regulations appropriate to allowing new domestic and foreign firms to compete. In liberalizing services, policymakers aim to increase the number and type of services and enhance the quality of services provided. Given the limited tradability of services, expansion of the services sector can significantly stimulate the demand for domestic jobs. The limited tradability of services also makes attracting foreign investment key to bringing new technology and management practices into the host country. Table 3.1 shows Egypt lagging behind its competitors in the US apparel market. While market access in goods is an important element in Egypt's competitiveness in this sector, it is clearly not enough. Nor is Egypt's low cost of labor. Countries with higher labor costs and with no preferential access to the US apparel market outperform Egypt. Egypt must find ways to lower its costs, improve its quality, and increase its efficiency. One sector to target is the services sector.

Gains from liberalization in Egypt's services sector are potentially significant. Denise Konan and Karl Kim (2004) found that if Egypt liberalized the services sector related to cross-border trade, welfare would improve by 0.78 percent and real output would increase by 1.07 percent. Improvement of the climate for foreign investment would net welfare gains of 6.90 percent and output gains of 11.85 percent. This study was conducted when Egypt was just beginning to undertake significant economic reforms, so current gains would likely be less dramatic. However, given the importance of the services sector to the Egyptian economy and the continued existence of barriers in key sectors, gains could be expected to be significant.

At the multilateral level, Egypt has made commitments in 4 of the 12 sectors covered by the General Agreement on Trade in Services (GATS)—

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18. Hoekman (2006) cites Mattoo, Rathindran, and Subramanian (2006), who find that, controlling for other growth factors, countries with open financial and telecommunications sectors grew on average 1 percentage point faster than other countries; Eschenback and Hoekman (2006), who find that liberalization in financial and infrastructure services, including telecommunications, power, and transport are highly positively correlated with foreign direct investment; Arnold, Javorcik, and Mattoo (2007), who show that allowing foreign providers into the domestic services market has a positive impact on the performance of domestic manufacturing firms; and Arnold, Mattoo, and Narciso (2006), who find a statistically significant positive relationship between total factor productivity and the performance of three services input industries. Konan and Maskus (2006) and Rutherford, Tarr, and Shepotylo (2006) both find, through separate country studies, that gains from services liberalization far exceed gains from trade liberalization.

namely construction, finance, tourism, and transportation. Since 2004, it has also unilaterally opened many sectors to foreign investment. With the exception of defense-related industries, the manufacturing sector is generally open to foreign investors. Limitations on certain types of foreign investment remain, including sectoral exceptions to national treatment in particular areas. These include construction, maritime and air transportation, courier services, foreign trading intermediation, and government purchases (in which there is preferential treatment for domestic bidders). Some public monopolies, such as in fixed-line telecommunications and electricity production and distribution, remain in place.<sup>19</sup>

Egypt is currently negotiating services liberalization with the European Union under the auspices of the Egypt-EU FTA. Negotiations on liberalizing trade in services and the right of establishment were initiated in February 2008. Topics under discussion include regulatory alignment in international maritime transportation services, postal and courier services, financial services, computer services, and telecommunications services. They have also included facilitating the temporary movement of natural persons. It makes sense for Egypt to follow a similar path with the United States so that it can access knowledge and capital from both major industrial regions.

A US-Egypt services trade agreement should place priority on sectors that would help Egypt gain international competitiveness. Sectors where modernization is necessary and in which the presence of US firms could either introduce necessary competition or bring new technology and management practices should be given priority. We identify transportation, construction, electricity, and information and communications as priority areas, but others could be included. Progress in these areas could help Egypt better profit from its strategic geographic position and become a more dominant player in regional transportation, communications, and outsourcing. We also recommend inclusion of professional services so that professionals in each country can more easily bring their ideas and talent to the other country.

## Transportation

Egypt serves as an important regional maritime transportation hub, with the Suez Canal a main artery of global transport and trade. Egypt has three major ports, at Alexandria, Damietta, and Port Said.<sup>20</sup> These rank 37,

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19. These are listed in Annex E of OECD (2007).

20. Alexandria handles over 55 percent of Egypt's foreign trade; Damietta is the leading container handling port, and Port Said is strategically located between the Middle East and Europe near the entrance of the Suez Canal.

93, and 100 in terms of container traffic in the 2007 World Port Rankings.<sup>21</sup> In total, Egypt has 15 commercial and 30 specialized ports—six for tourism, fourteen dedicated to petroleum, seven for mining, and three for fishing. The number of containers handled through Egyptian ports increased significantly over recent years, more than doubling between 2003 and 2007, reaching an average of 5 million twenty-foot equivalent units.

Egypt currently retains certain limits on foreign ownership in maritime transportation. There is a joint-venture equity limit of 49 percent, although greater foreign investment, up to 75 percent, can be made in ancillary services, such as port services. Private-sector participation is not allowed in the operation of the lucrative Suez Canal.<sup>22</sup>

Egypt also has regional potential in the air transportation sector. Foreign investment in international and domestic airlines is limited to 49 percent, and an economic needs test is required for foreign establishment in courier services. National carrier Egypt Air's domestic monopoly has been progressively curtailed, but international airlines are still prohibited from operating charter flights to and from Cairo.

Egypt and the United States have an Air Transport Agreement dating back to 1964, which was modified in 1991 with the addition of a security article and a limited cooperative marketing agreement in 1997. US and Egyptian officials have discussed the possibility of an Open Skies air services agreement to replace the Air Transport Agreement but talks have not yet begun. Commercial links are proceeding, however: In 2008 Egypt Air became a member of the Star Alliance, with United Airlines, Air Canada, Lufthansa, and others.

## Construction

Foreign participation in the construction sector remains limited by explicit equity restrictions: FDI is allowed only in the form of joint venture companies with foreign equity limited to 49 percent. In some subsectors, such as electrical wiring and other finishing work, foreign participation is limited to contracts exceeding \$10 million. The construction industry makes up about 7 percent of Egyptian GDP and supports 8 percent of Egypt's employment. The housing sector is governed by Land/Real Estate Law 15 of 1963 modified by Decree No. 548 of 2005 to remove restrictions on foreign property ownership in various areas, but foreign individuals are still

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21. American Association of Port Authorities, World Port Rankings—2007, [www.aapa-ports.org](http://www.aapa-ports.org) (accessed on November 8, 2009).

22. Private-sector participation does not seem likely any time soon: The head of the Suez Canal Authority is quoted as saying that this would be “like privatizing the pyramids” (*Financial Times*, December 17, 2008).

limited to ownership of two residences in Egypt (although citizens of other Arab countries are generally granted national treatment).

## Electricity

The state-owned Egyptian Electrical Holding Company (EEHC) is responsible for the generation, transmission, and distribution of electrical energy. It also owns and operates Egypt's electricity grid. Electricity generation was liberalized through Law 100/1996, which allows private firms to build, own, operate, and transfer electrical power generation plants.

Egyptian firms see the electricity sector as a bottleneck. Egypt experiences on average 8.6 power outages in a month—far more than regional competitors, as seen in table 3.5. Algeria experiences just over 5 and Jordan about 2.6. Firms estimate that these power outages result in a loss of nearly 5 percent of sales.

Obtaining an electrical connection in Egypt takes considerable time. An Egyptian factory owner could wait 143 days to obtain electricity, compared with 37 days for firms in the West Bank and Gaza (table 3.5). This is high compared not only with MENA countries, where Egypt has by far the worst performance, but also with the top competitors in the US apparel market. For example, the average wait is 50 days in Bangladesh and 15 or fewer in Indonesia, the Philippines, and Vietnam.

This situation is not expected to improve if changes are not made. Demand for power is rising as a result of population and economic growth. Enhanced competition, including from US firms, could help provide the infrastructure needed for firms to operate.

## Information and Communications

A second promising sector in which the two countries could cooperate to help boost Egypt's competitiveness is the information and communications technologies (ICT) sector. Egypt is already a world leader in providing wireless technology, with Egyptian company Orascom Telecom's operations extending throughout the Middle East, Africa, and South Asia—reaching markets as remote as North Korea.<sup>23</sup>

This world class quality is not reflected in Egypt's own domestic access to telecom services. Table 3.6 sets out a number of basic communications infrastructure indicators, comparing Egypt with the MENA region and with its competitors in the US textile and apparel market. The comparison with the region is important if Egypt is to position itself as a regional out-

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23. Orascom's North Korea license is valid for 25 years with an exclusive period of four years. See Jung-a Song, "Orascom Scores N. Korean Mobile First," *Financial Times*, February 1, 2008.

**Table 3.5 Reliability and availability of infrastructure services: Electricity**

<b>Country</b>	<b>Number of power outages in a typical month</b>	<b>Value lost due to power outages (percent of sales)</b>	<b>Delay in obtaining an electrical connection (days)</b>
All countries	9.17	4.95	38
MENA countries	4.44	4.38	55
Algeria (2007)	5.11	4.02	49
<b>Egypt (2007)</b>	<b>8.65</b>	<b>4.71</b>	<b>143</b>
Jordan (2006)	2.61	1.69	47
Lebanon (2006)	n.a.	5.97	72
Mauritania (2006)	3.71	1.57	8
Morocco (2007)	2.50	1.27	19
Oman (2003)	n.a.	4.18	15
West Bank and Gaza (2006)	3.34	4.60	37
<b>Top 20 developing-country US apparel suppliers</b>			
Bangladesh (2007)	101.56	10.56	50
Cambodia (2007)	26.95	2.44	15
China (2003)	n.a.	1.31	28
Dominican Republic (2005)	n.a.	15.17	30
<b>Egypt (2007)</b>	<b>8.65</b>	<b>4.71</b>	<b>143</b>
El Salvador (2006)	2.84	2.85	22
Guatemala (2006)	3.08	4.51	35
Honduras (2006)	2.99	3.83	28
India (2006)	n.a.	6.62	29
Indonesia (2003)	n.a.	3.30	15
Jordan (2006)	2.61	1.69	47
Mexico (2006)	2.62	2.36	12
Nicaragua (2006)	13.17	8.74	63
Pakistan (2007)	34.09	9.92	106
Peru (2006)	1.14	3.24	82
Philippines (2003)	n.a.	5.93	13
Sri Lanka (2004)	n.a.	n.a.	83
Thailand (2006)	1.53	1.53	28
Vietnam (2005)	n.a.	n.a.	12

MENA = Middle East and North Africa

n.a. = not available

Note: Data are for year in parentheses. The table shows the developing countries in the top 20 grouping; Italy, the only advanced country, is excluded.

Source: World Bank Enterprise Surveys, [www.enterprisesurveys.org](http://www.enterprisesurveys.org).

sourcing hub. While telecommunications plays less of a role in textiles and apparel than in the ICT sector, having access to effective communications technology to communicate with clients and with other parts of the supply chain can certainly help improve the position of a textile firm.

**Table 3.6 Reliability and availability of infrastructure services: Telecommunications and water**

Country	Infrastructure <sup>a</sup>			Coverage <sup>c</sup>			
	Average number of incidents of water insufficiency in a typical month <sup>b</sup>	Delay in obtaining a water connection (days)	Delay in obtaining a mainline telephone connection (days)	Fixed broadband subscribers (per 100 people)	Internet users (per 100 people)	Population covered by mobile cellular network (percent)	Telephone mainlines (per 100 people)
East Asia and Pacific	1.53	34.13	18.99	3.70	15.0	93.0	23.0
Eastern Europe and Central Asia	6.64	31.40	17.41	4.10	23.0	92.0	26.0
Latin America and Caribbean	4.12	34.12	35.31	5.40	27.0	91.0	19.0
South Asia	n.a.	n.a.	31.63	0.40	7.0	61.0	3.0
Sub-Saharan Africa	21.04	56.83	40.38	0.00 <sup>e</sup>	4.0	55.6 <sup>e</sup>	2.0
MENA countries	7.17	56.25	27.98	0.80	24.0	93.0	18.0
Algeria (2007)	9.45	84.62	40.77	0.85	10.0	82.0	9.0
<b>Egypt (2007)</b>	<b>4.00</b>	<b>117.10</b>	<b>85.50</b>	<b>0.60</b>	<b>13.2</b>	<b>93.5</b>	<b>14.2</b>
Jordan (2006)	14.30	31.10	3.30	2.20	25.4	99.0	8.8
Lebanon (2006)	n.a.	96.30	9.80	4.90	38.3	n.a.	17.0
Mauritania (2006)	7.70	22.60	14.50	0.10	n.a.	51.0	1.3
Morocco (2007)	0.90	13.10	6.40	1.50	21.4	n.a.	7.8
Oman (2003)	n.a.	16.20	7.80	0.70	9.1	96.0	9.8
West Bank and Gaza (2006)	7.20	16.90	11.90	1.50	9.6	95.0	9.4

**Top 20 developing-country US apparel suppliers**

Bangladesh (2007)	31.0	36.3	75.0	0.0	0.3	90.0	0.8
Cambodia (2007)	n.a.	7.9	4.5	0.1	0.5	87.0	0.3
China (2003)	n.a.	n.a.	6.8	5.0	16.1	97.0	27.7
Dominican Republic (2005)	n.a.	17.0	8.8	1.6	17.2	90.0	9.3
<b>Egypt (2007)</b>	<b>4.0</b>	<b>117.1</b>	<b>85.5</b>	<b>0.6</b>	<b>13.2</b>	<b>93.5</b>	<b>14.2</b>
Guatemala (2006)	5.8	76.4	28.2	n.a.	10.1 <sup>d</sup>	76.0 <sup>d</sup>	10.4 <sup>d</sup>
Honduras (2006)	5.8	47.7	169.5	n.a.	6.0	89.9	11.6
India (2006)	n.a.	23.1	13.3	0.5	7.2	61.0	3.3
Indonesia (2003)	n.a.	13.1	26.9	0.1	5.8	90.0	13.3
Jordan (2006)	14.3	31.1	3.3	2.2	25.4	99.0	8.8
Mexico (2006)	4.1	13.7	7.8	7.2	21.9	n.a.	19.3
Nicaragua (2006)	13.6	44.5	80.8	0.3 <sup>d</sup>	2.8 <sup>d</sup>	70.0 <sup>d</sup>	4.5 <sup>d</sup>
Pakistan (2007)	25.7	234.0	23.7	0.1	11.1	90.0	2.7
Peru (2006)	0.7	98.1	10.8	2.5	24.7	99.0	10.0
Philippines (2003)	n.a.	n.a.	19.5	0.6	6.0	99.0	4.4
Sri Lanka (2004)	n.a.	27.1	89.9	0.5	5.7	90.0	17.1
Thailand (2006)	0.4	43.1	29.8	1.4	20.0	37.8	11.0
Vietnam (2005)	n.a.	n.a.	10.8	1.5	21.0	70.0	33.5

MENA = Middle East and North Africa

n.a. = not available

a. Year of survey in parentheses next to country.

b. For survey data collected in 2006 and 2007, this indicator is computed for the manufacturing module only.

c. Data are for 2007 unless otherwise indicated.

d. Data are for 2006.

e. Data are for 2005.

Note: The table shows the developing countries in the top 20 grouping; Italy, the only advanced country, is excluded.

Sources: World Bank Enterprise Surveys, [www.enterprisesurveys.org](http://www.enterprisesurveys.org); World Bank, *World Development Indicators* Database, 2008.

Egypt just tops MENA standards in mobile telephony coverage, with 94 percent of the population covered by a mobile cellular network, compared with 93 percent regionwide. In all other indicators, however, Egypt falls short of the regional standard. As in electricity, the delay in obtaining a phone line is much higher than in any of the countries in the MENA region. This indicator is even worse than Nicaragua's, where the wait time is 81 days, and is twice that of the next worst country in the MENA region, Algeria, where a small business needs to wait only 41 days to get a phone line. In regional competitor Jordan it takes only three. If Egypt is serious about becoming an ICT center of excellence, this chronic delay in obtaining a phone line needs to be addressed. Also notable is the low level of internet usage. Only 13 out of every 100 people are internet users, compared with a MENA average of 24. Less than 1 percent of the population has access to broadband.

The telecommunications sector was largely deregulated in 2005, opening up competition for equipment and service providers, and privately operated telecommunications services are permitted up to 100 percent. However, Telecom Egypt continues to hold a monopoly on landlines. In February 2008 the National Telecom Regulatory Authority (NTRA) announced that it would break this monopoly and issue a second operator license, but this auction was postponed indefinitely as a result of the global financial crisis.

As mentioned in the previous section, several surveys rank Egypt as an attractive potential outsourcing location. Enhanced US investment and technical cooperation in ICT infrastructure could help Egypt boost its burgeoning ICT sector. This could lead to additional jobs in related industries such as call centers and back office operations in the Middle East. Since the 1980s, Egypt has been working to capitalize on its history as a regional literary force to become a hub for Arab-language software for the Middle East, a potential market with some 175 million Arab speakers. Software exports were estimated at US \$15 million in 2001. Egypt is classified among the fourth tier "infant" software exporting nations (nations with less than five years exporting experience, fewer than 10 exporting organizations, and annual revenue less than \$25 million—criteria set out in Carmel 2003).

## Professional Services

Another area in which the United States and Egypt could negotiate significant liberalization is in increasing access to each other's professional services since both countries retain restrictions on foreign professionals. Access to each other's markets would allow Egyptian and US professionals to access cutting edge technology and business practices that could then be brought back home.

Difficulties in finding employment in the United States by foreign-born workers are well known. The allotment of H1-B visas, which allow temporary employment of high-skilled workers, is generally filled soon after the quota opens. Egypt also holds restrictions on its foreign workforce. For most companies, the number of foreign employees is limited to 10 percent of staff. For shareholder companies, at least 75 percent of professional and administrative employees must be Egyptian. To obtain a work permit for a foreigner, the employer must demonstrate that no qualified Egyptian is available for the job and commit to appointing Egyptian assistants who will be trained to take over the foreigner's job.<sup>24</sup>

In sum, liberalizing trade in services would benefit both countries. Egyptian businesses and consumers as well as foreign investors in Egypt would have access to better quality and variety of services. Egypt could see significant employment gains if the services sector expands as a result of increased efficiency and competition. Such ventures would transfer valuable resources—technology, management skills, and finance—that would help boost productivity of domestic services firms, which in turn would yield welfare gains across the Egyptian economy.<sup>25</sup> US firms would benefit as well through increased services exports and new investment opportunities.

## Modernizing the Bilateral Investment Treaty

Services and investment are inextricably linked. Foreign businesses establish a commercial presence in the territory of their partner markets to provide services. Attracting foreign investment in key sectors of the economy—in addition to petroleum—is essential to meeting Egypt's development goals and to sustaining the significant economic achievements of recent years. While foreign investment has increased in the nonpetroleum sector over the past years, the bulk of investment continues to be attracted to mining and oil.

Table 3.7 compares 2008 US FDI by sector in Egypt to US FDI in the countries with which the United States has negotiated FTAs. Currently, Egypt represents about 4 percent of total US investment in mining and oil, which comprises more than 90 percent of US investment in Egypt. One of Egypt's stated goals, in addition to enhancing investment, is to diversify investment into higher-value-added industries.

Greenfield investment—that is, new investment in the country as opposed to investment through mergers or acquisitions—from the United

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24. Economist Intelligence Unit, *Country Commerce—Egypt 2009*, New York.

25. A 2007 World Bank study (Arnold, Javorcik, and Mattoo 2007), using data from the Czech Republic, found empirical evidence of a positive relationship between liberalization in the services sector and productivity in manufacturing firms that rely on services inputs.

**Table 3.7 US direct investment position abroad (historical-cost basis), 2008**

Position	Country	All industries	Percent of total US FDI	Mining	Percent of total US FDI	Manufacturing	Percent of total US FDI
		(millions of US dollars)		(millions of US dollars)		(millions of US dollars)	
	All countries total	3,162,021		151,859		512,293	
<b>40</b>	<b>Egypt</b>	<b>8,771</b>	<b>0.3</b>	<b>5,159</b>	<b>3.4</b>	<b>299</b>	<b>0.1</b>
<b>FTAs in force</b>							
3	Canada	227,298	7.2	23,778	15.7	72,543	14.2
9	Singapore	106,529	3.4	589	0.4	16,544	3.2
10	Mexico	95,618	3.0	4,865	3.2	21,821	4.3
11	Australia	88,549	2.8	20,342	13.4	12,743	2.5
32	Chile	12,613	0.4	1058	0.7	2,238	0.4
36	Israel	10,153	0.3	0	0.0	6,411	1.3
41	Peru	8,458	0.3	6,276	4.1	580	0.1
59	El Salvador	3,215	0.1	n.a.	n.a.	n.a.	n.a.
62	Costa Rica	2,525	0.1	(*)	n.a.	989	0.2
72	Dominican Republic	960	0.0	0	0.0	599	0.1
73	Guatemala	915	0.0	n.a.	n.a.	n.a.	n.a.
79	Honduras	700	0.0	0	0.0	(D)	n.a.
90	Morocco	252	0.0	n.a.	n.a.	n.a.	n.a.
98	Nicaragua	162	0.0	n.a.	n.a.	n.a.	n.a.
100	Jordan	121	0.0	n.a.	n.a.	n.a.	n.a.
117	Bahrain	18	0.0	n.a.	n.a.	n.a.	n.a.
182	Oman	(D)	n.a.	n.a.	n.a.	n.a.	n.a.
<b>FTAs pending approval (as of December 2009)</b>							
21	Korea	27,673	0.9	-1	0.0	9,165	1.8
42	Panama	7,243	0.2	63	0.0	40	0.0
45	Colombia	6,263	0.2	3,234	2.1	1,333	0.3

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

(D) = Data suppressed to avoid disclosure of data of individual companies; FTA = free trade agreement

Source: BEA (2009).

States for the period 2003–08 totaled \$3.88 billion, with 5,500 jobs created (table 3.8). Of this investment, 55 percent was in the coal, oil, and natural gas industry and 14 percent in hotels and tourism. Eight percent is invested in chemicals, 5 percent in software and IT services, and 3 percent in semiconductors. This latter investment generated nearly 1,400 jobs, 13 percent of the jobs created. Financial services and business machines each received 4 percent of total investment. The textile sector, with an investment of \$17.3 million, represented less than 1 percent of total US investment but created 2 percent of the jobs generated through US new investment.

New investment in Egypt originating in the EU countries was substantially higher than that originating in the United States, at \$11.6 billion. Europeans also invested mostly in the coal, oil, and natural gas sector (44 percent), followed by financial services (11 percent), hotels and tourism and building and construction (10 and 9 percent, respectively), and metals and alternative energy, 4 percent each.

Since 1992, when the US-Egypt BIT came into effect, significant changes have taken place in international provisions on investment, both through changes in the texts of BITs and through innovations in the investment provisions of FTAs. The United States has recently completed reformulating the model text it has used in BIT negotiations over the past two decades. Former Assistant Secretary of State for Economic and Business Affairs Daniel Sullivan noted that the new BIT text is “similar to the investment provisions of the North American Free Trade Agreement (NAFTA) and, in keeping with our policy of maintaining consistency across our agreements, is very similar to the investment chapters of our recently concluded free trade agreements, including those with Chile, Singapore, five Central American countries and the Dominican Republic (CAFTA-DR), Morocco, Australia, Oman, Peru, and Colombia.”<sup>26</sup> The US-Uruguay BIT, signed in October 2004, was the first to be based on this new US model text and is substantively similar to the investment chapter of the FTAs the United States has concluded over the past few years (see appendix A for a comparison of the US-Egypt BIT and the recent US-Uruguay BIT).

The new model BIT contains provisions on national treatment and most favored nation treatment both before and after the establishment of an investment; a minimum standard of treatment based on customary international law; international law principles governing expropriation; limitations on performance requirements, such as local content requirements; the right to hire senior managers without regard to nationality; improved transparency with respect to investment-related laws and regulations; a guarantee of free transfers of investment-related funds; and binding

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26. Daniel S. Sullivan, The US-Uruguay Bilateral Investment Treaty, testimony before the Senate Committee on Foreign Relations, Washington, June 16, 2006.

**Table 3.8 Greenfield investment in Egypt from the European Union and the United States, 2003–08**

Industry	Investment (millions of US dollars)		Jobs		Jobs (percent of total)		Investment (percent of total)	
	European Union	United States	European Union	United States	European Union	United States	European Union	United States
Aerospace	15	n.a.	30	n.a.	0	0	0	0
Alternative/renewable energy	421	n.a.	89	n.a.	1	0	4	0
Automotive original equipment manufacturer	75	32	626	300	4	5	1	1
Building & construction materials	1,036	n.a.	1,163	n.a.	7	0	9	0
Business machines & equipment	n.a.	172	n.a.	517	0	9	0	4
Business services	33	32	765	128	4	2	0	1
Ceramics & glass	176	n.a.	1,131	n.a.	7	0	2	0
Chemicals	288	309	155	172	1	3	2	8
Coal, oil, & natural gas	5,052	2,149	1,879	601	11	11	44	55
Communications	103	12	618	22	4	0	1	0
Consumer products	130	n.a.	690	n.a.	4	0	1	0
Electronic components	20	31	156	173	1	3	0	1
Engines & turbines	17	n.a.	22	n.a.	0	0	0	0
Financial services	1,318	145	1,686	117	10	2	11	4
Food & tobacco	116	n.a.	1,218	n.a.	7	0	1	0
Hotels & tourism	1,149	534	1,899	1,011	11	18	10	14
Leisure & entertainment	36	73	99	198	1	4	0	2
Metals	463	49	931	389	5	7	4	1
Pharmaceuticals	258	33	673	51	4	1	2	1
Real estate	216	n.a.	569	n.a.	3	0	2	0
Rubber	65	n.a.	186	n.a.	1	0	1	0
Semiconductors	n.a.	100	n.a.	284	0	5	0	3
Software & IT services	40	185	235	1,391	1	25	0	5
Textiles	168	17	1,108	101	6	2	1	0
Transportation	68	n.a.	80	n.a.	0	0	1	0
Warehousing & storage	4	n.a.	279	n.a.	2	0	0	0
<b>Total</b>	<b>11,583</b>	<b>3,878</b>	<b>17,359</b>	<b>5,546</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

n.a. = not available

Source: fDi Intelligence Database; authors' calculations.

international arbitration of investment disputes that can be invoked either by investors or by the parties to the agreement.

If the current US-Egypt BIT were to be updated, a number of issues should be subject to review. One is coverage. Whereas the US-Egypt BIT currently excludes entire sectors, more modern investment provisions, such as the model BIT or investment provisions in current US FTAs, allow the exclusion of particular measures, but these must be specifically listed. The current US-Egypt BIT includes a list of sectors exempted from national treatment obligations by both Egypt and the United States. Egypt's exceptions are extensive: air and sea transportation; maritime agencies; land transportation other than that of tourism; mail, telecommunications, telegraph services and other public services that are state monopolies; banking and insurance; commercial activity such as distribution, wholesaling, retailing, import and export activities; commercial agency and broker activities; ownership of real estate; use of land; natural resources; national loans; and radio, television, and the issuance of newspapers and magazines, though several have opened up to foreign investment with the 2004 reforms in Egypt. US exceptions under the US-Uruguay BIT are more limited than under the US-Egypt BIT; for example, ocean and coastal shipping; government grants; government insurance and loan programs; and ownership of real estate are no longer fully exempted. The definition of investment has also expanded to explicitly include bonds and other debt instruments.

The new BITs and FTA investment provisions also reflect changes in trade-related intellectual property rights. The US-Uruguay BIT, as well as the investment chapters in CAFTA-type agreements, explicitly include intellectual property rights as a form of investment, reference the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), and demand TRIPS consistency. They also include specific provisions on the use of intellectual property rights: Article 6 (5) of the new BIT restricts the issuance of compulsory licenses granted in relation to intellectual property rights in accordance with the TRIPS and to the revocation, limitation, or creation of intellectual property rights. Language in a renegotiated US-Egypt BIT on intellectual property rights also would need to reflect the May 10, 2007 agreement reached between Congress and the Bush administration, which adds flexibility for developing countries with respect to pharmaceutical-related intellectual property rights provisions.<sup>27</sup>

Another important area in which US BITs have evolved is dispute settlement. All US BITs include negotiation and arbitration provisions that allow investor and state claims, but the 1992 US-Egypt BIT provides for the submission of the dispute to the International Centre for Settlement of Investment Disputes (ICSID), while the new provisions provide for the establishment of an arbitral tribunal comprising arbitrators selected by each

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27. A summary of the intellectual property rights provisions can be found in the USTR Fact Sheet, *Bipartisan Trade Deal*, May 2007, available at [www.ustr.gov](http://www.ustr.gov).

party and one, who will preside, selected by agreement of both parties. Both the US-Uruguay BIT and the investment chapter of the CAFTA-DR include provisions on transparency in the arbitration process that include publishing key documents and holding open hearings of the tribunal.

Both the US-Uruguay BIT and the CAFTA-type FTAs include provisions on labor and the environment. The US-Uruguay BIT provides that neither environmental nor labor laws shall be weakened or avoided in order to promote investment. Such provisions will likely be strengthened in subsequent BITs, following the provisions in the May 10 agreement, as already incorporated into the Colombia, Korea, and Peru FTAs.

Updating the legal framework of the US-Egypt investment relationship could serve three purposes. First, modernizing the provisions guiding this relationship could increase business confidence and “give credit” to Egypt for the vast changes that have been made to the Egyptian investment regime, particularly since 2004. Second, signing such an instrument could serve, as did NAFTA for Mexico, to “lock in” these hard-fought reforms. Third, the updated BIT could serve as a model for an investment chapter in an eventual US-Egypt FTA.

Modernizing the BIT would address a number of the investment concerns raised by US companies, including in the field of intellectual property protection and in labor and environmental standards. Technically, this would upgrade the investment provisions to standards comparable to those in most recent US FTAs.

Would an updated BIT yield new inflows of FDI to Egypt? There is little robust evidence that an enhanced BIT would do so in the absence of complementary policy and regulatory reforms (see appendix B). However, several authors find a positive relationship between BITs and foreign investment, and others see greater results when the investment provisions are part of a greater set of trade and investment initiatives, such as in an FTA. An updated BIT, as part of a package of measures to enhance the US-Egypt economic relationship, as proposed in this chapter, could set a basis for greater predictability and stability for foreign investors. Put another way, an updated BIT may provide a positive but not sufficient inducement to foreign investors.

With or without a renegotiation of the BIT, room exists for cooperation in the area of investment. Restrictions exist in a number of the areas not covered by the BIT. Particular priority should be given to eliminating barriers to investment in economic infrastructure, which could in turn have a multiplier effect, by facilitating FDI flows into manufacturing and services.

## **Cooperation on Trade Facilitation Measures**

Trade facilitation measures involve improving procedures related to the movement of goods across borders with a view to reducing associated

costs and improving efficiency. This includes the improvement of transportation infrastructure, modernization of ports and customs administration, cooperation in enforcing intellectual property rights, and the elimination of government corruption and enhancement of transparency. It also includes assistance in confronting security challenges as Egypt works to have its ports meet Container Security Initiative (CSI) standards.

Table 3.9 shows how Egypt compares with other MENA countries and with its main competitors in the US textile and apparel market in seven dimensions of trade facilitation, as measured by the World Bank's Logistics Performance Index (LPI). The LPI compares countries according to feedback from international firms (particularly freight forwarders and express carriers) as well as data on the performance of components of the logistics chain in each country.<sup>28</sup>

Egypt ranks 97th out of 150 countries on the aggregate LPI, and 14th out of 18 MENA countries, with its lowest scores in infrastructure (2.00 out of 7.00) and customs (2.08). Among its textiles and apparel competitors it also ranks second to last, topping only Nicaragua. This indicates that market opening measures need to be complemented by policy reforms that address the many and varied obstacles to doing business in Egypt.

## **Increasing Customs Efficiency and Port Security**

One important component of international trade is having well-functioning ports and efficient and effective customs systems. As part of the 2004 reforms, Egypt modernized its port facilities, including deepening quays to receive larger vessels; redesigning storage areas and associated infrastructure; installing new fiber optic cables for data transmission and a more automated cargo management system; and renovating the passenger/cruise ship terminal. These have reportedly cut customs clearance times significantly. Egypt's Ministry of Finance also committed to a comprehensive program to reform the customs system, including implementing the WTO Customs Valuation Agreement. In January 2008 Egypt acceded to the International Convention on the Simplification and Harmonization of Customs Procedures (revised Kyoto Convention).

There remains much room for improvement. The World Bank's Enterprise Surveys indicate that 24 percent of firms in Egypt identify customs and trade regulations as a major constraint (table 3.10) compared with 17 percent worldwide. In the MENA region, Egypt performs relatively well in this aspect, ranking fourth, after Jordan, Morocco, and Oman. Among its textile and apparel competitors, however, Egypt ranks third to last.

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28. World Bank, Logistics Performance Index, 2007, [www.worldbank.org](http://www.worldbank.org) (accessed on November 8, 2009).

**Table 3.9 Logistics Performance Index (LPI), 2007**

Rank	Country	LPI	Customs	Infrastructure	International shipments	Logistics competence	Tracking and tracing	Domestic logistics costs	Timeliness
4	Middle East and North Africa	2.42	2.24	2.27	2.44	2.33	2.35	2.95	2.88
33	Israel	3.21	2.73	3.00	3.27	3.23	3.46	2.17	3.58
36	Bahrain	3.15	3.40	3.40	3.33	2.75	3.00	2.25	3.00
41	Saudi Arabia	3.02	2.72	2.95	2.93	2.88	3.02	2.76	3.65
44	Kuwait	2.99	2.50	2.83	2.60	3.00	3.33	2.40	3.75
46	Qatar	2.98	2.44	2.63	3.00	3.00	3.17	3.00	3.67
48	Oman	2.92	2.71	2.86	2.57	2.67	2.80	3.25	4.00
52	Jordan	2.89	2.62	2.62	3.08	3.00	2.85	2.92	3.17
60	Tunisia	2.76	2.83	2.83	2.86	2.43	2.83	3.20	2.80
64	Sudan	2.71	2.36	2.36	2.67	2.83	2.92	3.00	3.17
67	Mauritania	2.63	2.40	2.20	2.60	2.70	2.80	3.11	3.10
78	Iran	2.51	2.50	2.44	2.59	2.69	2.00	2.93	2.80
94	Morocco	2.38	2.20	2.33	2.75	2.13	2.00	2.38	2.86
<b>97</b>	<b>Egypt</b>	<b>2.37</b>	<b>2.08</b>	<b>2.00</b>	<b>2.33</b>	<b>2.38</b>	<b>2.62</b>	<b>2.83</b>	<b>2.85</b>
98	Lebanon	2.37	2.17	2.14	2.50	2.40	2.33	3.40	2.67
112	Yemen	2.29	2.18	2.08	2.20	2.22	2.30	2.67	2.78
140	Algeria	2.06	1.60	1.83	2.00	1.92	2.27	3.17	2.82
145	Djibouti	1.94	1.64	1.92	2.00	2.00	1.82	2.80	2.30

**Top 20 developing-country US apparel suppliers**

30	China	3.32	2.99	3.20	3.31	3.40	3.37	2.97	3.68
31	Thailand	3.31	3.03	3.16	3.24	3.31	3.25	3.21	3.91
39	India	3.07	2.69	2.90	3.08	3.27	3.03	3.08	3.47
43	Indonesia	3.01	2.73	2.83	3.05	2.90	3.30	2.84	3.28
52	Jordan	2.89	2.62	2.62	3.08	3.00	2.85	2.92	3.17
53	Vietnam	2.89	2.89	2.50	3.00	2.80	2.90	3.30	3.22
56	Mexico	2.87	2.50	2.68	2.91	2.80	2.96	2.79	3.40
59	Peru	2.77	2.68	2.57	2.91	2.73	2.70	3.00	3.00
65	Philippines	2.69	2.64	2.26	2.77	2.65	2.65	3.27	3.14
66	El Salvador	2.66	2.38	2.42	2.78	2.53	2.82	2.94	3.06
68	Pakistan	2.62	2.41	2.37	2.72	2.71	2.57	2.86	2.93
75	Guatemala	2.53	2.27	2.13	2.62	2.50	2.43	3.00	3.23
80	Honduras	2.50	2.48	2.32	2.48	2.41	2.41	2.88	2.88
81	Cambodia	2.50	2.19	2.30	2.47	2.47	2.53	3.21	3.05
87	Bangladesh	2.47	2.00	2.29	2.46	2.33	2.46	3.08	3.33
92	Sri Lanka	2.40	2.25	2.13	2.31	2.45	2.58	3.08	2.69
96	Dominican Republic	2.38	2.33	2.18	2.34	2.25	2.28	3.05	2.89
<b>97</b>	<b>Egypt</b>	<b>2.37</b>	<b>2.08</b>	<b>2.00</b>	<b>2.33</b>	<b>2.38</b>	<b>2.62</b>	<b>2.83</b>	<b>2.85</b>
122	Nicaragua	2.21	2.14	1.86	2.18	2.41	2.19	3.04	2.50

Note: The table shows the developing countries in the top 20 grouping; Italy, the only advanced country, is excluded.

Source: World Bank, Trade Logistics and Facilitation, [www.worldbank.org/lpi](http://www.worldbank.org/lpi).

**Table 3.10 Customs constraints**

Country	Average time to clear direct exports through customs (days)	Average time to clear imports from customs (days)	Percent of firms that use material inputs and/or supplies of foreign origin	Percent of firms that identify customs & trade regulations as a major constraint
World	6.1	10.1	60.8	16.9
MENA countries	6.3	11.4	67.3	26.4
Jordan (2006)	3.8	8.5	63.1	13.8
Morocco (2007)	1.8	3.8	92.4	14.3
Oman (2003)	4.2	8.0	51.6	20.7
<b>Egypt (2007)</b>	<b>6.4</b>	<b>8.7</b>	<b>49.2</b>	<b>23.5</b>
Mauritania (2006)	3.9	6.8	66.8	25.9
Syria (2003)	6.3	15.8	59.2	28.4
West Bank and Gaza (2006)	6.0	20.7	76.4	30.9
Algeria (2007)	14.1	16.8	71.8	36.1
Lebanon (2006)	7.4	9.0	75.2	43.1
<b>Top 20 developing-country US apparel suppliers</b>				
Mexico (2006)	5.4	9.3	24.4	0.4
Vietnam (2005)	4.9	5.5	42.2	4.2
Honduras (2006)	6.0	10.3	55.4	4.4
Pakistan (2007)	4.8	7.3	17.4	5.9
Nicaragua (2006)	5.0	11.2	62.1	12.4
Cambodia (2007)	1.5	n.a.	100.0	12.9
Peru (2006)	5.6	12.5	74.3	12.9
Jordan (2006)	3.8	8.5	63.1	13.8
Sri Lanka (2004)	7.6	3.8	54.2	14.7
India (2006)	15.6	15.2	11.8	14.9
Indonesia (2003)	4.1	5.6	n.a.	15.7
Guatemala (2006)	4.5	20.6	65.3	17.7
China (2003)	6.7	8.4	n.a.	19.3
Dominican Republic (2005)	11.4	12.4	37.1	19.6
Philippines (2003)	6.6	9.1	53.3	21.7
<b>Egypt (2007)</b>	<b>6.4</b>	<b>8.7</b>	<b>49.2</b>	<b>23.5</b>
El Salvador (2006)	2.6	12.9	75.0	23.6
Thailand (2006)	1.5	5.3	40.1	32.3

MENA = Middle East and North Africa

n.a. = not available

Note: Data are for year in parentheses. Data have been sorted by the percent of firms identifying customs complaints as a major trade restraint. The bottom part of the table shows the developing countries in the top 20 grouping; Italy, the only advanced country, is excluded.

Source: World Bank Enterprise Surveys, [www.enterprisesurveys.org](http://www.enterprisesurveys.org).

Egypt's ports perform relatively well in clearing imports through customs, at a reported 8.7 days, compared with the world average of 10.1 days (table 3.10) and a MENA average of 11.4 days. However, export clearance times are relatively high: 6.4 days compared with 3.8 days in Jordan or 1.8 days in Morocco. Among its textile and apparel competitors, Egypt falls in the lower third, between Honduras (6.0) and the Philippines (6.6). This time delay in sending out exports could be a liability to Egypt's textile and apparel industry, particularly in a just-in-time inventory environment. Handling services fees are also relatively high, reaching 20 percent of freight costs compared with the best practice rates of 8 to 10 percent (Ghoneim and Helmy 2007).

In many cases, transportation costs of shipping goods from Egypt to the United States can be a greater barrier to the US market than are the relatively low US tariffs. Recent literature has emphasized the importance of transportation costs and infrastructure in export success. Some studies link improvements in this area to increases in per capita income. Ximena Clark, David Dollar, and Alejandro Micco (2004), for example, estimate that an inefficient port has the same effect as increasing geographical distance between markets by 60 percent. Improving port efficiency from the 25th to the 75th percentile reduces shipping costs by 12 percent.<sup>29</sup> While geography presents a fixed cost, other elements of transportation costs can be mitigated. Helping Egypt overcome these barriers would greatly enhance its access to the US market and enable it to compete with other countries that have been gaining market share in goods such as textiles at Egypt's expense.

Technical cooperation aimed at further port modernization could help to decrease shipping time and cut transportation costs, allowing Egyptian industries to take better advantage of Egypt's strategic geographic location. Increased port efficiency would also help Egypt further exploit its regional hub status and advance regional economic integration. These steps would make Egyptian and, by extension, Middle Eastern goods more competitive. Improving the efficiency of this sector would have significant positive spillover effects on trade and investment and thus would help boost productivity and job creation.

Technical support from the United States to implement the Customs Valuation Agreement could help Egypt lower the cost of doing business and increase the flow of trade between Egypt and the United States. This could be carried out in parallel with the WTO's trade facilitation program and as an initiative under Aid for Trade. Currently Egypt's Ministry of Fi-

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29. For example, Nuno Limão and Anthony J. Venables (1999) show that increasing transportation costs by 10 percent reduces trade volumes by 20 percent; Steven Radelet and Jeffrey Sachs (1998) show that shipping costs reduce the growth rate of manufactured exports and per capita GDP (doubling the shipping cost is associated with a reduction of more than one half of one percentage point per year).

nance is working with a six-year, \$30 million customs reform project from USAID and with other donors, including the European Union, to begin work on customs reform issues. Additional assistance to continue and sustain these efforts would be a benefit to Egypt as well as US importers, exporters, and investors in Egypt. The US Trade and Development Agency (USTDA), for example, has a global customs initiative designed to help lower- and middle-income countries modernize and improve their customs facilities.

In addition to efficiency challenges, Egypt faces increasing demands on its customs resources. Like many developing countries, Egypt needs to prepare its ports to meet the additional security requirements of the post-9/11 world. In particular, new US security programs could make it more difficult and costly to ship goods from Egyptian ports to the US market. Since 2001, the United States has implemented a number of security measures: In addition to the tighter shipping security measures in the Trade Act of 2002, these include the 24-Hour Advance Manifest Rule, the Container Security Initiative (CSI), and the Customs-Trade Partnership against Terrorism (C-TPAT). The CSI was developed by the US Bureau of Customs and Border Protection (CBP) in the aftermath of the terrorist attacks of 2001. Through CSI, CBP officials work with host customs administrations to establish security criteria for identifying high-risk containers. Egypt is in the implementation phase, having signed a Declaration of Principles in June 2006. The Port of Alexandria became operational as a CSI port in September 2007. The CSI requires 100 percent scanning by 2012, though this requirement is likely to be modified and the deadline pushed back for practical reasons.<sup>30</sup>

## Implementation of Intellectual Property Rights

It is difficult to imagine a trade and investment package or partnership with the United States that does not address intellectual property rights, long a US trade policy priority.<sup>31</sup> US companies have cited ineffective enforcement of intellectual property rights as a disincentive to doing business in the Egyptian market.<sup>32</sup> The USTR Trade Policy Agenda for 2007

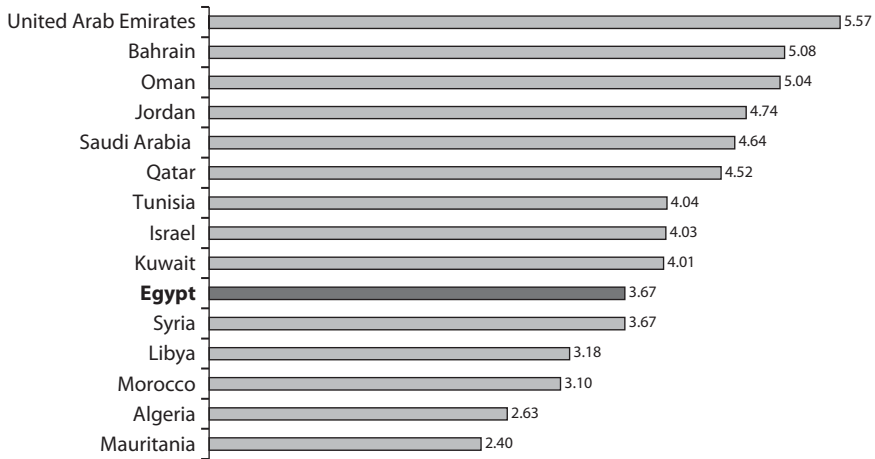
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30. In her confirmation hearing, Secretary of Homeland Security Janet Napolitano recognized the difficulty of achieving that goal (Jorina Fontelera, "Homeland Security to Miss Cargo Scanning Deadline," *Industrial Market Trends*, March 4, 2009).

31. In early 2005, for example, the Pharmaceutical Research and Manufacturers of America (PhRMA) sent a letter to Deputy Secretary of State Robert Zoellick demanding action in response to an announcement by Egyptian Minister of Health and Population Mohammed Awad Tagedin that the government was granting domestic market approval to several hundred generic versions of patented drugs.

32. For example, after the passage of a new, WTO-consistent intellectual property rights law, US pharmaceutical company Pfizer gained permission to market its drug Viagra in Egypt.

**Figure 3.2 Intellectual property protection in MENA countries, 2009**



MENA = Middle East and North Africa

Note: 1 = very weak; 7 = very strong

Source: World Economic Forum, *Global Competitiveness Report 2009/2010*, [www.weforum.org](http://www.weforum.org).

praised Egypt for recent reforms in this area but mentioned ongoing US concerns with its intellectual property rights regime.<sup>33</sup>

Cooperation on intellectual property rights could be beneficial to both the United States and Egypt. The World Economic Forum's *Global Competitiveness Report 2009/2010* lists intellectual property protection as an area of competitive disadvantage for Egypt. Egypt ranks 58th out of 133 countries in intellectual property rights protection. In the MENA region, Egypt is in the bottom half in terms of its performance (see figure 3.2).

Under the law, generic versions of the drug should have been prohibited from entering the market for five years. However, two months after Viagra was introduced, the Egyptian Ministry of Health authorized a dozen Egyptian companies to produce generic versions of the drug at a fraction of the cost of the patented Viagra. Stories such as this one, reported in the *New York Times*, may scare off investors who otherwise might be attracted to Egypt's large consumer base and prime location as a springboard to other Middle Eastern consumers.

33. "Despite joint efforts to address issues affecting U.S. companies, Egypt's intellectual property regime remained an area of concern for the United States in 2006. In April 2006, Egypt was maintained on the Special 301 Priority Watch List due to marketing approvals granted for locally produced copies of patented United States pharmaceutical products, as well as deficiencies in Egypt's copyright enforcement regime, judicial system and trademark enforcement. The Egyptian Government in 2006 took the long-awaited step of expanding the enforcement role of the Ministry of Communications and Information Technology, a measure that has the potential to improve protection for U.S. copyrights. The United States will continue to look for Egypt to address intellectual property issues that are important for continued economic development and the expansion of the U.S.-Egypt trade relationship" (US Trade Representative, *2007 Trade Policy Agenda and 2006 Annual Report*, [www.ustr.gov](http://www.ustr.gov)).

Egypt undertook a reform of its intellectual property system in 2002, with new intellectual property legislation covering all major areas of the TRIPS agreement. Egypt's 2002 Intellectual Property Law No. 82 provides protection for most forms of intellectual property. The final implementing regulations for this new law were issued on April 14, 2005. The law prohibits limiting local firms from modifying technology and more controversially stipulates that disputes in commercial contracts involving technology transfer between foreign and domestic firms may be heard only before Egyptian courts. Implementing legislation for this law was completed in 2005. The TRIPS agreement came into full effect in Egypt on January 1, 2005 at the end of a five-year transition period that was used to allow the nation to bring legislation and practice in line with international intellectual property norms.

In 2004 Egypt was placed on the US Priority Watch List for "unauthorized marketing approvals granted for patent-infringing pharmaceutical products, deficiencies in Egypt's IPR enforcement regimes for copyrights and trademarks and concerns about its judicial authority." However, in 2008 Egypt was moved from the Priority Watch List to the Watch List in recognition of improvements in pharmaceutical intellectual property protection (USTR 2008).<sup>34</sup> One can expect the situation to continue to improve: In its FTA with the European Union, Egypt is bound by a clause requiring accession to a number of international intellectual property rights agreements. This was done with a view to strengthening new domestic intellectual property legislation.

Stronger intellectual property enforcement is critical for Egypt's development of its IT sector and building up its software industry. US assistance in the difficult tasks of implementing and strengthening enforcement of Egypt's new intellectual property laws and of training people to do so could be extremely significant. Within the context of its Border Measures for the Protection of Intellectual Property Rights Instructions No. 770 of 2005, Egypt has already initiated a program to train customs officials, working closely with the private sector (for example, Egyptian officials signed a memorandum of understanding with Nestlé in December 2006 to share expertise on identifying counterfeit goods).<sup>35</sup>

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34. In April 2006 Egypt was maintained on the Special 301 Priority Watch List due to marketing approvals granted for locally produced copies of patented US pharmaceutical products, as well as deficiencies in Egypt's copyright enforcement regime, judicial system, and trademark enforcement. The Egyptian government in 2006 expanded the enforcement role of the Ministry of Communications and Information Technology, a measure that was met with approval in the United States (US Trade Representative, 2007 *Trade Policy Agenda and 2006 Annual Report*, [www.ustr.gov](http://www.ustr.gov)).

35. "Egyptian Customs Authority and Nestlé Sign MOU to Protect Intellectual Property Rights," *Business Intelligence—Middle East*, December 11, 2006.

**Table 3.11 Transparency indicators**

Country	Percent of firms expected to make informal payment to public officials (to get things done)	Percent of firms expected to give gifts to get an operating license	Percent of firms expected to give gifts in meetings with tax officials	Percent of firms expected to give gifts to secure a government contract	Percent of firms identifying corruption as a major constraint
All countries	30	16	18	31	37
MENA countries	29	16	19	31	49
Oman (2003)	33	n.a.	n.a.	n.a.	12
Mauritania (2006)	82	33	48	76	17
Morocco (2007)	13	0	11	6	27
Jordan (2006)	18	3	1	6	41
Syria (2003)	n.a.	68	69	n.a.	58
<b>Egypt (2007)</b>	<b>7</b>	<b>14</b>	<b>14</b>	<b>92</b>	<b>59</b>
Algeria (2007)	65	7	15	41	64
West Bank and Gaza (2006)	13	2	3	7	67
Lebanon (2006)	51	17	24	33	67

MENA = Middle East and North Africa

n.a. = not available

Note: Data are for year in parentheses.

Source: World Bank Enterprise Surveys, [www.enterprisesurveys.org](http://www.enterprisesurveys.org).

## Enhancing Transparency and Addressing Corruption

In the *Global Competitiveness Report 2009/2010*, Egypt ranks 57th in the world and 7th in the MENA region in terms of transparency in government policymaking. Matthias Helble, Ben Shepherd, and John Wilson (2007) cite a number of problems that need to be addressed to increase trade transparency, including reducing document requirements for import/export transactions; reducing the number of border agencies with which firms must interact; removing “hidden” trade barriers; and limiting unofficial payments.

According to the World Bank’s Enterprise Surveys, 59 percent of Egyptian firms identify corruption as a major constraint to doing business, with 92 percent indicating that they expect to give gifts to secure a government contract (table 3.11). The news is not all bad: In some indicators, Egypt far outperforms the regional average. Only 14 percent of firms expect to give gifts to obtain a license and only 7 percent—far lower than the MENA average of 29 percent—state that they are expected to make an informal payment to public officials to get things done. Increasing trans-

parency reduces the opportunity for such abuses and therefore reduces the cost of doing business.

## **Cooperation to Enhance Egypt's Trade Capacity: Infrastructure, Education, and Beyond**

Increasing Egypt's preferential access to the US market and bolstering trade in services are both steps toward enhancing their economic relationship. Improvements in trade logistics can help Egyptian firms more efficiently sell their goods. For sustained results, however, these measures must be supplemented by regulatory reforms and improvements in Egyptian physical and human capital. By fostering a more efficient regulatory environment, a well-functioning infrastructure, and a trained workforce, the US-Egypt Strategic Economic Partnership can help Egypt create jobs, boost investment, and work toward sustainable development.

Egypt has long been a recipient of US development assistance. In the 1970s aid was predominantly directed toward infrastructure, particularly restoring and reopening the Suez Canal, a main source of foreign exchange. Programs in the 1980s concentrated on helping Egypt's market reform efforts, including supporting Egypt's privatization efforts. Programs in the 1990s focused on increasing exports and expanding access to healthcare services, reducing air pollution, and strengthening Egypt's nongovernmental organizations. In the 2000s, as trade and investment have increased in importance and aid has declined, development assistance programs have been aimed at promoting trade and attracting investment, as well as increasing the education level and productivity of the Egyptian workforce.

The US-Egypt Strategic Economic Partnership should deploy economic assistance to strengthen the foundations of Egypt's trade and investment environment. Cooperation in strengthening Egypt's physical and legal infrastructure and improving the quality of Egypt's workforce will benefit both partners. Tangible results would include enhanced productivity for Egyptian firms and opportunities for Egyptian workers. They would also include better business opportunities for US firms that invest in the Egyptian market. Strategically, a stronger and more stable economy can help Egypt enhance its regional role and become a stronger partner in the region. Finally, it will make Egypt a stronger partner in confronting the shared challenge of climate change.

Infrastructure and human capital improvements require substantial resource commitments and a robust funding source. One potential source for such support is the Millennium Challenge Account (MCA). Established in 2002, the MCA is geared toward developing countries that have undertaken reforms that will lead to sound policies and institutions. The underlying assumption of MCA assistance is that aid is most effective in

countries that have already undertaken market-oriented policy reforms.<sup>36</sup> Given its track record since 2004, Egypt meets this criterion.

The MCA was approved by the US Congress in January 2004 (PL 108-199, Division D), and a US government corporation, the Millennium Challenge Corporation (MCC), was formed to administer its funds.<sup>37</sup> The participation of the secretary of state, the secretary of Treasury, and the US trade representative on the board signal the foreign policy and economic priorities accorded to this institution.

In announcing the program, President Bush stated that

*“When nations refuse to enact sound policies, progress against poverty is nearly impossible. In these situations, more aid money can actually be counterproductive, because it subsidizes bad policies, delays reform, and crowds out private investment. . . . Sound economic policies unleash the enterprise and creativity necessary for development. So we will reward nations that have more open markets and sustainable budget policies, nations where people can start and operate a small business without running the gauntlets of bureaucracy and bribery.”<sup>38</sup>*

Since 2004, the Egyptian government has implemented wide-reaching economic reforms that have improved Egypt’s performance on a wide range of business indicators. By granting Egypt MCC funds, the United States can help Egypt to not only prevent the erosion of those reforms but also build upon them.

To be eligible for MCC funding, countries must qualify on the basis of annual per capita income level. There are two groups: low-income countries, with per capita income below \$1,735, and lower-middle-income countries with per capita income between \$1,736 and \$3,595. Egypt, with a GNI per capita of \$1,580, qualifies as a low-income country.<sup>39</sup> Countries are then scored on 17 indicators. MCA funds are granted to countries that perform well in each of three baskets: “ruling justly,” “investing in their people,” and “encouraging economic freedom.”<sup>40</sup> To qualify, countries

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36. This assumption is largely based on the findings in Burnside and Dollar (2000), which finds that aid has a positive effect on economic growth in countries that have adopted good fiscal, monetary, and trade policies. Easterly (2003) and Easterly, Levine, and Roodman (2004) test this result by expanding the dataset and respecifying variables and find that the result does not always pertain.

37. The MCC’s Board of Directors is chaired by the secretary of state, with the Treasury secretary as the vice chair. Other board members include the US trade representative, the USAID administrator, the MCC CEO, and four public members appointed by the president. The president requested an initial commitment to increase aid by \$5 billion over three budget cycles.

38. White House, President Proposes \$5 Billion Plan to Help Developing Nations, remarks by President George W. Bush at the Inter-American Development Bank, March 14, 2002.

39. Millennium Challenge Corporation, Selection Criteria, available on the MCC website, [www.mcc.gov](http://www.mcc.gov) (accessed on November 8, 2009).

40. White House, President Proposes \$5 Billion Plan to Help Developing Nations.

must score above the median on at least half of the indicators in each basket as well as in an indicator on “control of corruption.” The latter indicator is a pass/fail indicator: No country can qualify if it does not score above the median on “control of corruption.” A country can lose its eligibility by performing substantially below average on any indicator (i.e., the bottom 25th percentile) and not taking appropriate measures to improve this score or by falling below the median on the “control of corruption” indicator.

According to the MCC, the 17 indicators are developed by third parties, using analytically rigorous methodologies and sound data that are consistent and comparable across a large set of countries. They also represent policies that can produce results within two to three years. The indicators used in 2009 are listed in table 3.12, along with Egypt’s scores on each.

In the “ruling justly” category, Freedom House data are used to assess performance on political rights and civil liberties indicators. The remaining four indicators use World Bank Institute (WBI) Worldwide Governance Indicators data. In the “investing in people” category, health indicators are based on World Health Organization (WHO) data, education data come from UNESCO, and the environmental indicator uses information gathered by the Center for International Earth Science Information Network (CIESIN) and the Yale Center for Environmental Law and Policy (YCELP).<sup>41</sup> The “economic freedom” category uses the World Bank and International Finance Corporation’s (IFC) Doing Business data for business startups, the International Monetary Fund’s (IMF) *World Economic Outlook* data for inflation, and the trade policy ranking from the Heritage Foundation. “Regulatory quality” data are from the WBI, fiscal policy from national sources, and land rights and access from the UN’s International Fund for Agricultural Development (IFAD). The “control of corruption” indicator is assessed using Transparency International data.

While the indicators are a main means for determining which countries qualify for MCA funds, the board also considers information regarding anticorruption measures, commitment to enhancing democracy, and other factors affecting where MCC funds would be most likely to reduce poverty and generate economic growth.<sup>42</sup> Availability of MCC funds is also taken into account.

Egypt has consistently met the indicators test every year since 2006 (table 3.12), although it falls substantially below the median on three indicators (political rights, trade, and fiscal policy). In its 2008 evaluation,

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41. Yale Center for Environmental Law and Policy and Columbia University, Center for International Earth Science Information Network, Environmental Performance Index, <http://epi.yale.edu>.

42. Millennium Challenge Corporation, *Report on the Selection of Eligible Countries for Fiscal Year 2008*, December 2007.

**Table 3.12 Egypt's scores on MCC indicators, 2005–08**  
(percentile in parentheses)

Indicator	2005	2006	2007	2008	2009
<b>Ruling justly</b>					
Political rights (Freedom House)	6 (17–44)	6 (17–40)	8 (18)	7 (19)	7 (18)
Civil liberties (Freedom House)	6 (9–23)	5 (22–47)	22 (35)	20 (26)	18 (21)
Control of corruption (World Bank Institute)	0.53 (82)	0.64 (90)	0.40 (81)	0.36 (81)	0.20 (75)
Government effectiveness (World Bank Institute)	0.45 (81)	0.61 (90)	0.54 (83)	0.45 (77)	0.38 (78)
Rule of law (World Bank Institute)	0.87 (94)	0.83 (96)	0.86 (95)	0.88 (93)	0.72 (93)
Voice and accountability (World Bank Institute)	–0.18 (43)	–.36 (40)	–0.43 (37)	–0.38 (35)	–0.61 (22)
<b>Investing in people</b>					
Immunization rates (World Health Organization)	98 (93)	97 (88)	98 (91)	98 (95)	97.5 (93)
Public expenditure on health (World Health Organization)	1.8 (55)	1.79 (49)	2.23 (51)	2.34 (53)	2.59 (57)
Public expenditure on primary education (UNESCO)	n.a.	n.a.	4.08 (89)	n.a.	n.a.
Girls' primary education completion rate (UNESCO)	89.4 (77)	89.6 (77)	92.8 (82)	93.7 (80)	95.9 (79)
Natural resource management (CIESIN/YCELP) <sup>a</sup>				81.74 (92)	83.99 (94)
<b>Encouraging economic freedom</b>					
Regulatory quality (World Bank Institute)	0.23 (70)	0.02 (53)	0.28 (73)	0.25 (70)	0.41 (87)
Land rights and access (IFAD/IFC) <sup>a</sup>				0.815 (94)	0.875 (100)
Cost of starting a business (World Bank/IFC) <sup>b</sup>	44.4 (95)	104.9 (44)	68.8 (58)		
Business start-up (World Bank/IFC) Days to start a business (World Bank/IFC) <sup>b</sup>	43 (57)	34 (78)	19 (93)	0.982 (93)	0.975 (93)
Inflation (IMF <i>World Economic Outlook</i> )	11.33 (21)	4.31 (74)	11.40 (28)	4.20 (77)	11.0 (24)
Fiscal policy (IMF/national sources)	–2.39 (67)	–2.47 (63)	–8.78 (5)	–8.52 (4)	–8.4 (6)

n.a. = not available.

a. Natural resource management and land rights indicators were adopted in 2007 and first used in the 2008 scorecards.

b. For FY2005 “cost of starting a business” was “credit rating.” After 2007 “cost of starting a business” and “days to start a business” were merged into “business start-up.”

Note: For each category countries receive a score according to criteria set out by the source indicated in parentheses. For example, Freedom House awards each country a numerical rating—on a scale of 1 to 7—for political rights and an analogous rating for civil liberties; a rating of 1 indicates the highest degree of freedom and 7 the lowest level of freedom. The World Bank Institute's World-wide Governance Indicators are expressed as an index based upon surveys. The WHO data set out compliance and expenditure rates, etc. The countries are ranked, but their eligibility depends on their percentile ratings (which are consistent and comparable). Shaded areas indicate categories in which Egypt meets the MCC criteria.

Source: Millennium Challenge Corporation, [www.mcc.gov](http://www.mcc.gov).

Egypt qualified in 3 out of 6 of the “ruling justly” indicators, 4 out of 5 of the “investing in people” indicators, and 4 out of 6 of the “economic freedom” indicators.

In terms of its “economic freedom” scores, Egypt’s low score on the trade indicator is surprising. The Heritage Foundation measures trade as a composite of tariff and nontariff barriers, with tariffs calculated as a function of the average trade-weighted tariff adjusted for the maximum and minimum tariff rates and a penalty for nontariff barriers, the size of which is determined according to qualitative and quantitative information. Given that Egypt has moved up 11 percentage points in just one year, it is unlikely that, given the trade reforms undertaken, Egypt will not also qualify on this indicator in the next round, thus having an even stronger case for being selected as an MCA country. However, despite qualifying in 2009, 2008, 2007, and 2006, Egypt has not been selected as an MCA-eligible country.

Of the initial countries that were selected for FY2004 funding (out of a list of 63 candidates), 10 met the stated criteria.<sup>43</sup> For 10 other countries, the board used discretion in its decision. For example, if a country scored poorly in an indicator, the board would take into account recent progress if policy reforms had been put in place. Curt Tarnoff (2007) cites the example of Cape Verde, which scored low on trade policy but was selected anyway in FY2006 due to progress evidenced by joining the WTO and reducing reliance on trade taxes.

Being selected as an MCC country would not only provide additional sources of funding but also send a signal that Egypt has satisfactorily implemented reforms in a manner that is conducive to growth and development. Table 3.13 lists the projects that have been approved in participating countries. Many of the MCC projects are in exactly the areas in which Egypt requires improvement: infrastructure, education, and private-sector development.

## Shoring Up Egypt’s Physical Infrastructure

Egypt currently ranks 56th out of 134 countries on the *Global Competitiveness Report 2009/2010* infrastructure index and 88th in health and primary education. These figures are telling. An adequate supply of infrastructure services is increasingly recognized as an essential component of the “behind the border” trade facilitation agenda aimed at increasing productivity and enhancing economic growth.<sup>44</sup> Adequate infrastructure services

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43. As of December 2007, countries eligible for MCA funding are Armenia, Benin, Bolivia, Burkina Faso, El Salvador, Georgia, Ghana, Honduras, Jordan, Lesotho, Madagascar, Mali, Moldova, Mongolia, Morocco, Mozambique, Namibia, Nicaragua, Senegal, Tanzania, Timor-Leste, Ukraine, and Vanuatu.

**Table 3.13 Millennium Challenge Compact countries and projects**

Country	Project	Country	Project
Armenia	Rural road rehabilitation Improved irrigation Engaging civil society Total: \$236 million	Madagascar	Raising incomes by bringing the rural population from subsistence agriculture to a market economy Total: \$110 million
Benin	Increasing access to land through more secure and useful land tenure Expanding access to financial services through grants given to micro, small, and medium enterprises Providing access to justice by bringing courts closer to rural populations Improving access to markets by eliminating physical and procedural constraints currently hindering the flow of goods through the Port of Cotonou. Total: \$307 million	Mali	Increasing the productivity of the agriculture sector and regional enterprises Total: \$461 million
Cape Verde	Watershed management and agricultural support Infrastructure Private-sector development Total: \$110 million	Mongolia	Improving the efficiency and capacity of the rail network Securing and registering property land titles Vocational education Health Total: \$285 million
El Salvador	Education Public services Agricultural production Rural business development Transportation infrastructure Total: \$461 million	Morocco	Fruit tree productivity Small-scale fisheries Artisan and Fez-Medina project Financial services Enterprise Support Fund Total: \$698 million
Georgia	Regional infrastructure rehabilitation Enterprise development Total: \$295 million	Mozambique	Water and sanitation Transportation Land tenure services Farmer income support Total: \$507 million
Ghana	Raising farmer incomes through private sector-led agribusiness development Total: \$547 million	Nicaragua	Reducing transportation costs Improving access to markets Strengthening property rights Increasing investment Raising incomes for farms and rural businesses Total: \$175 million
Lesotho	Improving provision of water supplies for industrial and domestic use Improving health outcomes Private-sector development Total: \$364 million	Vanuatu	Reconstruction of priority transport infrastructure Institutional strengthening Total: \$66 million

Source: Millennium Challenge Corporation, [www.mcc.gov](http://www.mcc.gov).

have been associated with helping reduce income inequality (Estache, Foster, and Wodon 2002; World Bank 2003). Improving Egypt's performance in infrastructure and in human capital will not only assist the domestic economy but also create new trade and investment opportunities.

In Egypt, as in many developing countries, fiscal pressures have limited public infrastructure investment, and the gap has not been closed by private-sector participation. Table 3.14 shows Egypt's performance on a number of infrastructure-related indicators, as set out in the *Global Competitiveness Report 2009/2010*, relative to that of other MENA countries.

In terms of overall infrastructure, Egypt ranks in the bottom half of the MENA countries. An indicator in which Egypt performs particularly poorly is the quality of roads, where it ranks 73rd overall, and 12th out of 15 MENA countries; its port infrastructure ranks in the bottom half. Compared with the countries that compete with Egypt in the US textile and apparel market, its relative position is somewhat stronger; here, Egypt places fourth in overall infrastructure. In terms of the quality of port infrastructure, Egypt performs relatively well against its textile competitors, coming in fifth. In road quality, Egypt ranks in the middle of this group.

Egypt is served by a network of over 64,000 kilometers (39,800 miles) of primary and secondary roads, of which 76 percent are paved (compared with 70 percent for the MENA region as a whole). Egypt's ground transportation sector was last overhauled in the 1980s. Strong population and urban growth has increased the demand on the transportation network. With growing numbers of licensed automobiles in the 1990s, the road system, especially in urban areas, has become highly congested.<sup>45</sup> Cairo's metro system, which opened in 1987, is one of the most heavily used systems in the world, carrying some 1.4 million passengers a day.

The World Economic Forum's *Travel & Tourism Competitiveness Report 2007* finds that underdeveloped domestic air and land transportation networks are hindering the growth of the tourism and travel industry, as tourists tend to stay in one city for the duration of their visit, rather than visiting multiple cities. Tourism is an important sector for Egypt, one of only two Arab countries to rank in the UN World Tourism Organization's

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44. A number of studies illustrate the importance of infrastructure to development. Aschauer (1989) shows that the stock of public infrastructure capital is a significant determinant of total factor productivity; these results are reinforced by Canning (1998) and Demetriades and Mamuneas (2000). Röller and Waverman (2001) find significant positive effects on output of telecommunications infrastructure in industrial countries; Calderón and Servén (2003a, 2003b) find similar effects for Latin America. Calderón and Servén (2004) find, using a large panel dataset, that the stock of infrastructure assets positively affect growth and that income inequality declines with higher infrastructure quantity and quality.

45. According to the Economist Intelligence Unit, *Country Profile 2006: Egypt*, "Egypt reports the highest incidence of traffic fatalities in the world: 44.1 deaths per 100,000 kilometers driven in 1994."

**Table 3.14 Infrastructure indicators, 2009**

Quality of overall infrastructure			Quality of roads			Quality of port infrastructure		
Country	Rank	Score	Country	Rank	Score	Country	Rank	Score
<b>Middle East and North African countries</b>								
United Arab Emirates	11	6.08	United Arab Emirates	7	6.19	United Arab Emirates	7	6.24
Oman	22	5.62	Oman	10	5.95	Bahrain	17	5.55
Bahrain	26	5.43	Bahrain	23	5.60	Oman	32	5.19
Jordan	29	5.22	Kuwait	36	5.01	Qatar	37	4.99
Saudi Arabia	32	5.17	Saudi Arabia	38	4.98	Tunisia	41	4.87
Tunisia	35	5.12	Tunisia	39	4.96	Saudi Arabia	46	4.72
Kuwait	44	4.71	Jordan	42	4.93	Israel	51	4.59
Qatar	47	4.57	Qatar	44	4.46	Jordan	52	4.51
Israel	50	4.50	Israel	47	4.29	<b>Egypt</b>	<b>57</b>	<b>4.32</b>
<b>Egypt</b>	<b>56</b>	<b>4.39</b>	Syria	68	3.60	Morocco	62	4.24
Morocco	73	3.74	Morocco	69	3.57	Kuwait	68	4.11
Syria	77	3.60	<b>Egypt</b>	<b>73</b>	<b>3.52</b>	Mauritania	91	3.47
Algeria	100	3.06	Libya	81	3.28	Syria	102	3.26
Libya	108	2.88	Algeria	82	3.25	Libya	104	3.25
Mauritania	116	2.76	Mauritania	114	2.54	Algeria	118	2.90
<b>Top 20 developing-country US apparel suppliers</b>								
Jordan	29	5.22	El Salvador	27	5.25	Honduras	35	5.12
El Salvador	40	4.85	Thailand	35	5.01	Sri Lanka	43	4.79
Thailand	41	4.77	Jordan	42	4.93	Thailand	47	4.69
<b>Egypt</b>	<b>56</b>	<b>4.39</b>	China	50	4.18	Jordan	52	4.51
Guatemala	59	4.32	Guatemala	55	4.03	<b>Egypt</b>	<b>57</b>	<b>4.32</b>
Sri Lanka	63	4.14	Mexico	57	3.97	Dominican Republic	58	4.30
China	66	3.99	Sri Lanka	60	3.89	Guatemala	59	4.30
Honduras	75	3.65	Pakistan	65	3.73	China	61	4.28
Mexico	71	3.77	Dominican Republic	70	3.56	El Salvador	64	4.17
Dominican Republic	80	3.45	<b>Egypt</b>	<b>73</b>	<b>3.52</b>	Pakistan	73	3.96
Cambodia	82	3.42	Honduras	74	3.52	Mexico	82	3.67
Pakistan	87	3.21	Cambodia	77	3.34	Cambodia	89	3.50
India	89	3.21	India	89	3.09	India	90	3.47
Indonesia	96	3.15	Peru	93	2.93	Indonesia	95	3.40
Philippines	98	3.12	Indonesia	94	2.93	Vietnam	99	3.28
Peru	102	3.00	Bangladesh	95	2.91	Philippines	112	3.00
Vietnam	111	2.83	Nicaragua	96	2.90	Bangladesh	113	2.98
Nicaragua	119	2.71	Vietnam	102	2.79	Nicaragua	124	2.69
Bangladesh	125	2.52	Philippines	104	2.78	Peru	126	2.66

Note: The table shows the developing countries in the top 20 grouping; Italy, the only advanced country, is excluded.

Source: World Economic Forum, *Global Competitiveness Report 2009/2010*, [www.weforum.org](http://www.weforum.org).

list of the world's top 25 tourism destinations. Tourism makes up about 3.5 percent of Egypt's GDP and close to a third of nonoil investment. Upgrading and modernizing transportation-sector infrastructure is essential to Egypt's regional and international competitiveness.

Egypt also ranks relatively low in the region on the “technological readiness” indicator in the *Global Competitiveness Report 2009/2010*, which takes into account the availability of the latest technologies, firm-level technology absorption, FDI and technology transfer, and government procurement of advanced technology products. Here, Egypt is outranked by all MENA countries save Libya, Mauritania, Syria, and Algeria. These proxy indicators signify a lack of accessible high-tech infrastructure, due to either cost or quality. This indicates a need to step up Egypt’s technology infrastructure, adopt more forward-looking policies, and adopt a friendlier foreign investment environment to attract firms that will bring technology to the country.

A related area that is ripe for modernization is the housing sector. This sector combines physical and legal infrastructure needs. Egypt is facing a severe affordable housing shortage. A growing, young, low-income population indicates that this situation will continue to worsen. Egypt’s population density has grown to 75 people per square kilometer (2006 data), up from 55 people per square kilometer in 1990 (World Bank, *World Development Indicators*). This understates the actual crowding problem: In cities, population density can reach up to 1,900 people per square kilometer, or 4,900 people per square mile.<sup>46</sup> According to the Oxford Business Group (2009), population growth and low levels of low-income housing construction have created the need for 59 new cities, all of which will need a considerable amount of real estate. Egypt’s housing shortage stems from multiple sources, ranging from infrastructure constraints to regulatory issues to a lack of appropriate financing mechanisms.

One factor limiting the development of a robust housing sector is the existence of barriers to competition in the construction industry. Introducing competition through the services trade agreement mentioned earlier would help increase efficiency and minimize roadblocks to construction of affordable houses. An additional issue is weak property rights, particularly the lack of proper titles to houses. The US Overseas Private Investment Corporation (OPIC), an agency that provides US investors with political risk insurance and loan guarantees, conducted a study of the Egyptian housing market in 2005 and found that over 90 percent of urban housing is without a formal title.<sup>47</sup>

Substantial barriers to registering land and other forms of property also present problems. The World Bank calculates that it generally takes 193

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46. Steven Stanek, “Egypt ‘Greens’ Deserts to Stem Housing, Food Shortages,” *National Geographic News*, January 8, 2008, available at <http://news.nationalgeographic.com>.

47. The importance of property rights to economic development has been widely studied. The seminal work of Hernando De Soto (1989) shows the important multiplier effects that a formal property system can have on a well-functioning market. Clear property rights offer, among other things, greater assurance of protection of the value of the asset and greater availability of loans, due to the existence of collateral.

days and seven procedures to register a property, at a cost of nearly 6 percent of the property (World Bank 2007). Recent reforms—the creation of a “one-stop shop” for investment and a ceiling on property registration fees—have been put in place to mitigate this issue. Addressing it within the scope of the Strategic Economic Partnership would have positive effects for the Egyptian economy.

A major additional obstacle in the housing market is the lack of efficient financing options. A mismatch currently exists in the middle class housing market: While there is a high demand for middle-class housing units, and units exist, many potential homeowners are unable to obtain financing to purchase the existing units. Improving the availability of housing finance would help influence savings, consumption, financial depth, employment, and government budgets (OPIC 2005, World Bank 2005).

Thus, cooperation could take the form of various related initiatives: assistance in construction of new housing developments and of associated infrastructure, assistance in developing a legal framework that would strengthen the provision of property rights, and assistance in developing a system of financing to assist middle-class Egyptians to afford homes. Egypt currently derives about 6 percent of GDP from remittances, one-third of which originate in the United States. Cooperation between the United States and Egypt could include helping Egyptians use these remittances to begin to bolster the underdeveloped housing finance market.

## **Human Capital Development: Expanding Education and Gender Equality**

An educated workforce is an important source of productivity and an attractive inducement for foreign investment. Egypt scores poorly relative to other MENA countries in both primary and secondary education (table 3.15). In the quality of higher education indicator, Egypt scores very poorly, ranking 121 out of 134 countries worldwide and 12th out of 15 MENA countries. Compared with its top textile and apparel competitors, Egypt scores only seventh in primary education and third from bottom in higher education quality.

Egypt fares much worse, however, in the indicator related to workforce quality. The World Bank’s 2007 Enterprise Surveys cited an “inadequately educated workforce” as the sixth main constraint to firm investment in Egypt, with a third of firms surveyed identifying labor skill level as a major constraint. In the indicator measuring the efficient use of talent, Egypt ranks fourth from bottom in the MENA region and dead last among the top textile and apparel exporters.

Barriers to female employment are part of the problem. Egypt ranks third from the bottom among its textile and apparel competitors in the rate of female participation in the labor force (table 3.16) and sixth from

**Table 3.15 Education indicators, 2009**

Primary education			Quality of higher education			Efficient use of talent		
Country	Rank	Score	Country	Rank	Score	Country	Rank	Score
<b>Middle East and North African countries</b>								
Qatar	5	5.93	Qatar	5	5.78	Israel	17	4.98
United Arab Emirates	16	5.49	United Arab Emirates	21	5.11	Qatar	23	4.85
Tunisia	21	5.38	Tunisia	29	4.94	United Arab Emirates	38	4.60
Bahrain	38	5.01	Bahrain	34	4.57	Bahrain	78	4.05
Israel	50	4.73	Jordan	38	4.46	Kuwait	81	3.96
Jordan	54	4.66	Israel	65	3.85	Oman	86	3.89
Saudi Arabia	76	4.34	Oman	66	3.84	Saudi Arabia	102	3.67
Algeria	78	4.29	Saudi Arabia	74	3.70	Mauritania	111	3.58
Syria	80	4.23	Morocco	81	3.55	Tunisia	113	3.54
<b>Egypt</b>	<b>86</b>	<b>4.15</b>	Kuwait	86	3.46	Morocco	127	2.99
Morocco	89	4.09	Syria	101	3.20	Jordan	128	2.95
Kuwait	102	3.91	<b>Egypt</b>	<b>121</b>	<b>2.87</b>	<b>Egypt</b>	<b>130</b>	<b>2.79</b>
Oman	115	3.54	Algeria	124	2.83	Algeria	131	2.77
Mauritania	122	3.10	Mauritania	128	2.72	Syria	132	2.58
Libya	127	2.74	Libya	131	2.65	Libya	133	2.49
<b>Top 20 developing-country US apparel suppliers</b>								
China	42	4.97	India	33	4.58	China	13	5.10
Sri Lanka	44	4.88	China	37	4.52	Vietnam	27	4.80
Thailand	53	4.66	Jordan	38	4.46	Thailand	31	4.74
Jordan	54	4.66	Sri Lanka	48	4.20	Cambodia	46	4.50
Mexico	68	4.48	Indonesia	49	4.18	Indonesia	54	4.37
Indonesia	74	4.35	Thailand	51	4.12	Peru	70	4.17
Vietnam	81	4.21	Philippines	62	3.87	Dominican Republic	71	4.16
<b>Egypt</b>	<b>86</b>	<b>4.15</b>	Vietnam	69	3.77	Sri Lanka	82	3.95
Nicaragua	90	4.04	Pakistan	87	3.44	India	88	3.88
Philippines	91	4.03	Mexico	97	3.30	El Salvador	89	3.87
Honduras	95	4.01	El Salvador	100	3.22	Guatemala	94	3.81
India	100	3.95	Guatemala	104	3.09	Philippines	97	3.74
El Salvador	101	3.94	Peru	107	3.07	Bangladesh	106	3.61
Guatemala	104	3.89	Honduras	114	2.95	Mexico	115	3.48
Peru	107	3.82	Nicaragua	117	2.94	Nicaragua	123	3.27
Cambodia	113	3.60	Cambodia	118	2.92	Honduras	124	3.22
Bangladesh	119	3.32	<b>Egypt</b>	<b>121</b>	<b>2.87</b>	Jordan	128	2.95
Dominican Republic	125	2.97	Dominican Republic	126	2.81	Pakistan	129	2.88
Pakistan	128	2.48	Bangladesh	127	2.75	<b>Egypt</b>	<b>130</b>	<b>2.79</b>

Note: The table shows the developing countries in the top 20 grouping; Italy, the only advanced country, is excluded.

Source: World Economic Forum, *Global Competitiveness Report 2009/2010*, www.weforum.org.

the bottom in the MENA region, which has the lowest female labor force participation rate in the world.

Egypt clearly needs to boost women's role in the workforce and improve their education opportunities. A number of empirical studies show that returns to women's education are often greater than for men (Schultz

**Table 3.16 Gender equity in education indicators, 2009**

Country	Female participation in labor force		Literacy rate for population age 15 and above <sup>a</sup> (percent)		
	Rank	Score	Female	Male	Gap between male and female
<b>Middle East and North African countries</b>					
Israel	30	0.88	n.a.	n.a.	n.a.
Mauritania	74	0.77	48.0	63.0	15.0
Kuwait	113	0.54	93.1	95.2	2.0
Algeria	116	0.47	66.4	84.3	17.8
Qatar	118	0.46	90.4	93.8	3.4
United Arab Emirates	121	0.44	n.a.	n.a.	n.a.
Bahrain	123	0.41	86.4	90.4	3.9
Tunisia	124	0.38	69.0	86.4	17.3
Oman	126	0.34	77.5	89.4	11.9
<b>Egypt</b>	<b>127</b>	<b>0.34</b>	<b>57.8</b>	<b>74.6</b>	<b>16.8</b>
Libya	128	0.34	78.4	94.5	16.0
Morocco	129	0.32	43.2	68.7	25.5
Syria	130	0.27	76.5	89.7	13.2
Saudi Arabia	132	0.24	79.4	89.1	9.6
Jordan	133	0.22	87.0	95.2	8.2
<b>Top 20 developing-country US apparel suppliers</b>					
Vietnam	14	0.92	n.a.	n.a.	n.a.
China	20	0.91	90.0	96.5	6.5
Cambodia	28	0.88	67.7	85.8	18.1
Thailand	53	0.82	92.6	95.9	3.3
Dominican Republic	63	0.80	89.5	88.8	-0.7
Peru	73	0.77	84.6	94.9	10.2
Bangladesh	95	0.69	48.0	58.7	10.6
Philippines	99	0.62	93.7	93.1	-0.6
El Salvador	101	0.61	79.7	84.9	5.2
Indonesia	104	0.58	88.8	95.2	6.4
Sri Lanka	105	0.58	89.1	92.7	3.6
Guatemala	112	0.54	68.0	79.0	10.9
Mexico	114	0.53	89.8	91.4	1.6
Honduras	119	0.46	83.5	83.7	0.3
Nicaragua	120	0.45	n.a.	n.a.	n.a.
India	122	0.42	54.5	76.9	22.4
<b>Egypt</b>	<b>127</b>	<b>0.34</b>	<b>57.8</b>	<b>74.6</b>	<b>16.8</b>
Pakistan	131	0.25	39.6	67.7	28.0
Jordan	133	0.22	87.0	95.2	8.2

n.a. = not available

a. Data are for 2008 except Jordan, for which 2005 data are shown.

Sources: World Economic Forum, *Global Competitiveness Report 2009/2010*, [www.weforum.org](http://www.weforum.org); World Bank, *World Development Indicators Database*.

2002, DFID 2007) and that increases in female education improve human development outcomes such as child survival, educational levels, and health. Andrew Morrison, Dhushyanth Raju, and Nistha Sinha (2007) show microeconomic evidence linking increases in gender equality to reductions in poverty and gains in productivity. The authors also find that economic growth appears to be positively correlated with gender equality. Developing countries with higher gender equality tend to have lower poverty rates.

## Cooperation on Climate Change and the Environment

An additional reason to include Egypt in the MCC is its strong performance on the natural resource management indicator—and its pressing needs in the areas of the environment and climate change. Egypt was one of the first Arab countries to participate in the multilateral efforts to address climate change, signing the UN Framework Convention on Climate Change in 1994 and the Kyoto Protocol in 1999. At the governmental level, Egypt formed an interministerial National Climate Change Committee in 1997 and the Egyptian Council on the Clean Development Mechanism. Both bodies are affiliated with the Ministry of State for Environmental Affairs and have representatives from other government agencies. Egypt has put into place a National Action Plan on Climate Change.

Climate change poses challenges for both developed and developing countries. Egypt is highly vulnerable to global warming, with already scarce access to drinking water, high dependence on climate-sensitive agriculture, and a large proportion of its population and economic activity concentrated in the Nile delta. According to the World Bank, a 50 cm rise in the sea level—a predicted consequence of global warming—would displace more than 10 percent of Egypt’s population and cause \$35 billion in losses of land, property, and infrastructure.<sup>48</sup> Egypt is the third most vulnerable country in the world to climate change, surpassed only by Vietnam and Bangladesh.

The United States and Egypt share common interests in securing a new global climate change pact that commits both developed and developing countries to long-term cooperation in substantially cutting greenhouse gas emissions. Similarly, Egypt and the United States should work together in the Doha Round of multilateral trade negotiations to eliminate duties on goods and services that can help reduce greenhouse gas emissions.

As part of their economic partnership, Egypt and the United States could set up an investment fund related to climate change to assist Egyptians in meeting the costs of mitigation and adaptation measures. In that

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48. World Bank, *Adaptation to Climate Change in the Middle East and North Africa Region*, available at <http://web.worldbank.org> (accessed on October 27, 2009).

regard, OPIC could play a useful role. OPIC has set up a Clean Energy Fund for the Middle East and Asia and provides \$50 million in financing to the fund, which will invest in renewable energy projects. The fund invests in projects such as wind farms and geothermal production, as well as in companies that serve the renewable energy sectors. Since 1991, OPIC has committed nearly \$3.2 billion to over 40 private equity funds, which have invested \$4.2 billion on more than 300 private companies, mostly small and medium enterprises. In fall 2008, OPIC's board of directors approved over \$500 million in financing for new private equity funds designed to invest in clean and renewable energy (OPIC 2008). These funds could serve as a model for a US-Egypt clean energy fund, a component of the Strategic Economic Partnership.

