



Deepening the US-Egypt Trade Relationship

Speaker

Ambassador Nabil Fahmy, Ambassador of Egypt to the United States

Moderator

Ambassador Nicholas Veliotos, Chairman, USEF

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Ambassador Nabil Fahmy began his talk by noting that Egypt remains committed to its relationship with the United States and that the two countries share numerous interests. However, there are significant differences in the outlook of the two countries. The United States remains more concerned about global issues while Egypt is more focused on regional matters.

Ambassador Fahmy proceeded to give an overview of the Egyptian economy and US-Egypt trade. Over the last 15 years, the Egyptian economy has made great strides away from state control. Roughly 70% of GDP now comes from the private sector. Egypt has also increased the amount it exports to the United States (to about \$1.3 billion annually) while simultaneously decreasing its US imports (to about \$2.8 billion annually). The bulk of Egyptian exports are textiles while capital goods and agriculture products together account for about 80% of imports. Although the European Union (EU) is Egypt's largest export market, the United States remains the biggest single-nation market for Egyptian products.

Egypt is now in talks with the United States within the framework of the Trade and Investment Framework Agreement (TIFA) to identify the necessary towards a Free Trade Agreement (FTA). In addition, the United States, Egypt, and Israel recently agreed to create Qualified Industrial Zones (QIZ), which will allow products made with materials from Egypt and Israel to export duty-free to the United States. These QIZs should help Egypt adjust to the world's changing textile trade environment.

An FTA between the United States and Egypt would bring additional benefits to both countries. Generally speaking, an FTA would not reduce tariffs much since they are already fairly low. Perhaps the greatest benefit to Egypt of an FTA would be the signal it would send to the international community about the soundness of Egyptian economic policies. Overall, Egypt could expect to increase its exports to the United States by 50% under an FTA, mostly from sectors that currently export to the US, while US exports to Egypt could go up 40%.

From the point of view of the United States, an FTA with Egypt would have minimal economic importance because Egypt is a small trading partner. However, an



FTA could be important for promoting the broader trade goals of the United States. Egypt already has an FTA with the EU and thus is inclined to take their side on trade issues such as disputes about genetically modified organisms (GMOs). As for a wider Middle East Free Trade Area (MEFTA), Egypt is skeptical about the apparent American notion that such an agreement could reduce terrorism. However, Egypt would not object to a MEFTA as it would likely bring benefits to the region.

The Ambassador proceeded to discuss the reforms that Egypt has implemented in the last six months. Chief among these changes has been a 50% reduction in customs duties and that the income tax has been capped at 20%. In general, the government wants to attract more foreign direct investment but feels the best way to do this is to create a business environment where average Egyptians can succeed. Overall the government hopes the economy will create 700,000 new jobs.

These reforms have helped lift the country's lackluster economic growth from around 1% a few years ago to 4.8% this year, but growth rates of 7-8% annually are needed to achieve real progress. The winners in this growing economy include the stock market which was up 100% on the year and the tourism sector which has grown by 30%. The Egyptian pound has gained against the dollar since it was floated. The IT sector has shown 16% annual growth and has been boosted by visits from Bill Gates and Microsoft's decision to invest in IT training centers in Egypt. Egypt is emerging as the Middle East's IT leader and this sector could play a key role in employing Egypt's youth, an important consideration in a country where 56% of the population is under 25 years old.

The Ambassador concluded this overview of the economy and trade by noting that challenges remain. In particular, the Egyptian economy is quite small – its GDP is less than the annual revenues of Wal-Mart – and thus faces difficulties competing on the world stage. However, the last six months have brought progress and Egypt is committed to becoming more competitive. Egypt hopes that the world will show its approval through more trade agreements.

The Ambassador proceeded to discuss the current status of efforts to conclude an FTA with the United States. Both Egypt and the United States are interested in starting negotiations, but the Ambassador could not give an estimate of when they might begin. He noted that Egypt's trade representative will be coming to Washington, DC in the next few months but that he did not expect negotiations for an FTA to proceed as quickly as those that led to FTAs with the smaller countries of Morocco and Jordan.

The Ambassador concluded his talk by outlining what Egypt sees as the three pillars of its relationship with the United States. The first pillar has been foreign policy cooperation, particularly in the Arab-Israeli peace process. The second pillar has been military and security cooperation, most notable in Egypt's support for the 1991 Gulf War



and the later US actions in Somalia. Finally, the Ambassador expressed Egypt's hope that trade might become a strong third pillar in the relationship.

Q&A Highlights

Q: How was the state's portion of GDP reduced so dramatically?

A: The government has divested itself of state owned enterprises, choosing to become a regulator rather than an owner. In particular, the government has turned over parts of the banking and telecommunications industries and transport infrastructure to the private sector. The government has maintained control over particular sectors of the economy that impact the poor.

Q: Mubarak has been careful to avoid public discontent. What happens if the international economy declines and Egypt's more open economy suffers a major setback?

A: Egypt is working to keep social factors in mind throughout these reforms. The government intends to end subsidies for the wealthy and encourage competitiveness while maintaining safeguards for those who cannot compete.

Q: Why do you still think trade negotiations will go slowly? There are relatively few problems in terms of sensitive products.

A: Egypt remains cautious because the negotiations have yet to be announced. It is true that the establishment of the QIZs helped minimize the possibility that the issue of textiles would slow negotiations.

Q: When will negotiations start? Doesn't the QIZ obviate the need for an FTA?

A: Egypt cannot give a date for the start of negotiations. Egypt feels there is much to gain from an FTA in terms of international approval for its economic policies.

Q: Are the recent talks at Sharm al Sheik between the Israelis and the Palestinians a sign of movement towards a Palestinian State?

A: This is a step forward, but it really just gets the parties back to September 2000 when there were two partners in the process. The talks should help complete the Israeli withdrawal from Gaza and move the two parties on towards the "Road Map."

Q: The US pharmaceutical industry has registered its opposition to an FTA because of Egypt's policies regarding generic drugs. What is the status of this issue?

A: This is really a small problem that should be resolved within the framework of wider negotiations about the FTA.