Summary Notes of the Roundtable:

Promoting Services for Development in Egypt

Wednesday, June 10, 2015, 9:30 AM – 11:30 AM

Speakers:

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Moderator:

Omar Mohanna, Chairman, ECES

Main takeaways:

- The service sector has been increasingly dominant in most economies. The share of services value-added in world GDP has reached 70% in 2010, compared to 53% in 1970, greater than manufacturing, agriculture and mining sectors combined. In Egypt, services share of GDP was 47% in 2014 falling behind Lebanon, Jordan and Tunisia.
- New business models have given services even more prominence and strategic importance, not only for advanced industries but also for the most basic commodities. A recent case-study was done on the value-chain for the production and consumption of bread revealed that services account for 72% of the final cost of a loaf of bread.
- The newly introduced "smile curve" shows the share of value added in the supply chain. The highest value added originates from the pre and the post- fabrication services, while the least from the fabrication stages (i.e. physical product).
- Failure of the chain of services could lead to huge losses in competitiveness across the economy. Egypt, for example, was ranked the sixth producer of vegetables worldwide in 2011. However, this production capacity has not been reflected in Egypt's export performance.
- Trade in services is a major source for investment. Two thirds of the global FDI stock is in the service sector. Hence the importance of making sure that the investment policy and the regulatory framework of the service sector are properly aligned. It is very difficult to have a sound investment policy without a corresponding vision of the services sector, and vice-versa.

- Services are transferred through four modes: Mode 1: Cross-border trade, Mode 2: Consumption abroad, Mode 3: Commercial presence, and Mode 4: Presence of individual services suppliers. Worldwide, Mode 3 has the biggest share of services about 55-60%, however, it is barely reflected in the balance of payments data. In Egypt, the most restricted mode is Mode 4. Sectors like maritime auxiliary services and the legal sectors are almost closed, while sectors like telecommunication and banking are relatively more open.
- Despite being one of the main services exporters in the Arab region, Egypt has a low share of world's exports and imports of services, attracting 0.4% of total world exports and only 0.3% of world's total imports, with transportation and tourism being Egypt's main services exports. The extremely low share of exports can be attributed to the low knowledge and technology services exported.
- Egypt has made specific 44 GATS commitments in five of the twelve sectors in the WTO classification. The number of commitments is quite modest unlike countries in the MENA region like Saudi Arabia and Jordan who respectively made 120 and 110 commitments.
- Liberalization of services is neither deregulation nor privatization. Liberalization needs an intensive role from the government—as a regulator— through setting regulation and institutional reform. The government should start with crosscutting regulatory frameworks that apply to all sectors. A good example of a successfully liberalized service is the telecommunication sector in Egypt, shifting from public monopoly to a competitive sector.
- The fear of competition and the current mindsets are among the most important factors that hinder the process of services trade liberalization in Egypt.
- Introducing competition in services markets through liberalization can bring about tremendous welfare gains for both economy and society. However, it also poses serious challenges, particularly the regulatory perspective.
- Egypt has to keep an eye on its interest and not to follow aimlessly other countries. Experiences show that not all developing countries which entered the WTO agreements benefited in return.
- The role of the private sector is to push for the implementation of trade facilitation measures. On the other hand, the government has to set coherent regulations and policy measures between its relevant actors.