



# **GATS: Egypt's Commitments and Policy Priorities**

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**GATS 2000: Issues, Coordination  
and Private Sector Input for Trade in Services Policies**

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# Mail Questions

- 1. How Important is the Service Sector in the Egyptian Economy?**
- 2. What is the Level of Openness in Egypt's Trade in Services? How do We Compare to Other Countries?**
- 3. What are the Main Features of Egypt's GATS Commitments?**
- 4. What are the Main Service Liberalization Policies? Can They Underlie Egypt's Next Round of GATS Commitments?**

# 1. How Important is the Service Sector in the Egyptian Economy?

## Contribution of Services to GDP in 1996, Selected Countries

Country	Agriculture VA % of GDP 1996	Industrial VA % of GDP 1996	Services VA % of GDP 1996
Algeria	13	48	38
<b>Egypt</b>	<b>17</b>	<b>32</b>	<b>51</b>
Indonesia	16	43	41
Jordan	5	30	64
Kuwait	0	53	46
Malaysia	13	46	41
Morocco	20	31	49
Pakistan	26	25	50
Turkey	17	28	55
World			
Low Income	27	35	37
Middle Income	11	36	53
Low & Middle Income	15	34	51
High Income			

# 1. How Important is the Service Sector in the Egyptian Economy?

## Balance of Payments 1990/91-1997/98

US\$ millions	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98*
<b>Trade Balance</b>	<b>-7175</b>	<b>-6174</b>	<b>-7003</b>	<b>-7310</b>	<b>-7854</b>	<b>-9498</b>	<b>-10219</b>	<b>-11771</b>
Exports**	4250	3880	3725	3337	4957	4608	5345	5128
Imports**	-11425	-10054	-10728	-10647	-12811	-14107	-15565	-16899
<b>Services (net)</b>	<b>3576</b>	<b>4464</b>	<b>3561</b>	<b>3674</b>	<b>4042</b>	<b>5791</b>	<b>6193</b>	<b>4595</b>
<b>Receipts</b>	<b>7153</b>	<b>8189</b>	<b>8332</b>	<b>8677</b>	<b>9556</b>	<b>10636</b>	<b>11241</b>	<b>10444</b>
Suez Canal	1662	1950	1941	1990	2058	1885	1849	1777
Tourism	1646	2529	2375	1779	2299	3009	3646	2941
Investment Income	1167	995	883	1197	1626	1829	2052	2080
Other	2678	2751	3133	3711	3573	3913	3693	3646
<b>Current Account Balance</b>	<b>3820</b>	<b>2670</b>	<b>2295</b>	<b>410</b>	<b>386</b>	<b>-185</b>	<b>119</b>	<b>-2772</b>
<b>Capital &amp; Financial Account</b>	<b>457</b>	<b>-2</b>	<b>1821</b>	<b>2511</b>	<b>430</b>	<b>1017</b>	<b>2041</b>	<b>3765</b>
<b>Net Errors &amp; Omissions</b>	<b>481</b>	<b>1330</b>	<b>195</b>	<b>815</b>	<b>61</b>	<b>-261</b>	<b>-247</b>	<b>-1128</b>
<b>Overall Balance</b>	<b>3843</b>	<b>3999</b>	<b>4312</b>	<b>2106</b>	<b>754</b>	<b>571</b>	<b>1912</b>	<b>-135</b>

\*\*Including the exports and imports of Free Zones as from the quarter of 1996/97.

Source: Central Bank of Egypt & Ministry of Economy.

# 1. How Important is the Service Sector in the Egyptian Economy?

## Breakdown of GDP growth rate, 1994/95-1996/97

Sector	1994/95			1995/96			1996/97		
	Total	Public	Private	Total	Public	Private	Total	Public	Private
<b>GDP Growth</b>	4.67%	2.19%	6.21%	4.94%	3.05%	6.07%	5.29%	-3.53%	10.41%
Commodity Sectors	4.32%	2.26%	5.56%	4.31%	1.74%	5.81%	4.23%	-9.39%	11.86%
Productive Services & Building Sectors	5.01%	0.50%	7.52%	5.84%	4.07%	6.76%	6.41%	-0.46%	9.89%
Social Service Sectors	5.08%	4.58%	5.49%	5.05%	4.69%	5.34%	6.24%	5.63%	6.73%

Source: Calculations based on CAPMAS Statistical Yearbooks, June 1997 & June 1998.

# 1. How Important is the Service Sector in the Egyptian Economy?

- **Egypt is similar to other developing countries in terms of services' contribution to GDP.**
- **Private sector growth, especially in services, has been leading GDP growth in the past few years.**
- **The importance of tourism and Suez Canal to BOP.**

## 2. What is the Level of Openness in Egypt's Trade in Services? How Do We Compare to Other Countries?

Openness Index for Egypt and other groups of developed and developing countries.

Country	Year	Openness Index	
		Goods	Services
Egypt	1997	0.26	0.21
Indonesia	1997	0.48	0.11
Malaysia	1997	1.55	0.33
Morocco	1997	0.48	0.13
Pakistan	1997	0.31	0.07
Tunisia	1997	0.69	0.19
Turkey	1997	0.42	0.15
Bahrain	1995	1.36	0.40
Bangladesh	1997	0.36	0.06
Gambia	1994	0.00	0.00
Kuwait	1997	0.73	0.23
Uganda	1996	0.26	0.13
Algeria	1991	0.42	0.03
Jordan	1997	0.78	0.46
Saudi Arabia	1996	0.63	0.20

Source: International Financial Statistics, IMF, January 1999.

## 2. What is the Level of Openness in Egypt's Trade in Services? How Do We Compare to Other Countries?

### Egypt's Share in Output and World Trade, 1996.

	<b>GNP</b>	<b>Service Exports</b>	<b>Service Imports</b>	<b>Serv.X+Serv.M</b>
As % of Middle Income Economies	3%	16%	6%	10%
As % of world	0.22%	0.78%	0.47%	0.63%

Source: IFS, January 1999.



## 2. What is the Level of Openness in Egypt's Trade in Services? How Do We Compare to Other Countries?

**% Share of selected countries in WTO's reported total exports of services, 1996.**

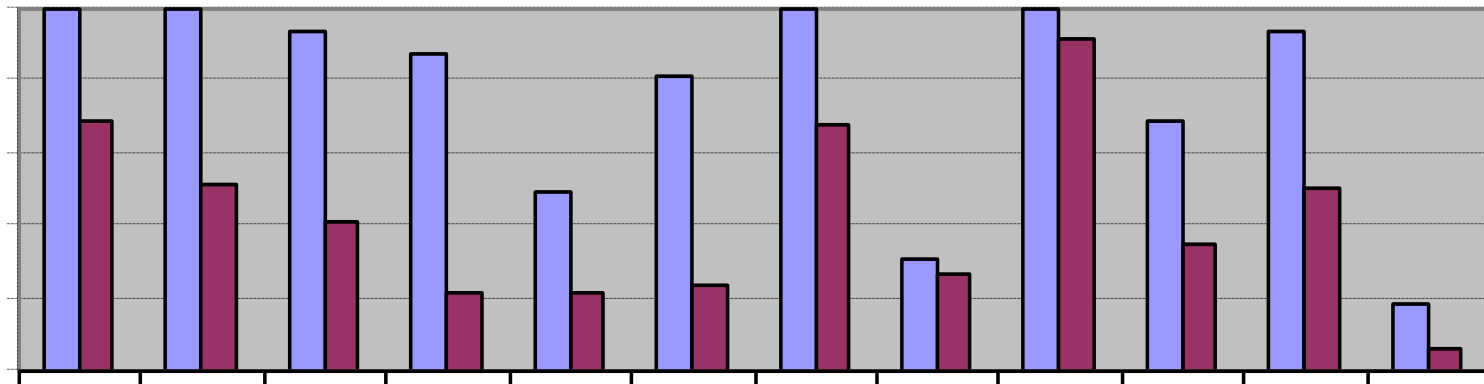
	Total	Transport	Travel	Communications	Construction	Insurance	Financial	Computer	Royalties	Other	Personal
Egypt	0.72	1.09	0.71	1.28	0.00	0.04	0.20	0.01	0.10	0.70	0.02
Indonesia	0.48		1.44	0.63							
Tunisia	0.21	0.20	0.40	0.16		0.05	0.06		0.00	0.07	0.02
Turkey	1.26	0.58	1.31		5.40	0.06	0.57			1.20	20.61
Malaysia	0.97	0.82	1.05			0.02				1.65	
Morocco	0.16	0.14	0.31	0.32		0.08			0.01	0.07	
Argentina	0.24	0.42	0.28	1.99		0.01	0.37	0.01	0.00	0.00	
Brazil	0.52	0.89	0.26	0.22	0.04	0.55	2.36	0.61	0.07	0.43	0.42
Chile	0.27	0.46	0.22	0.52		0.36			0.00	0.24	
India	0.59	0.64	0.68			0.50			0.00	0.74	
Israel	0.68	0.70	0.80	2.56		0.03			0.25	0.73	
Korea	2.19	3.60	1.36	1.11	1.67	1.58	0.30	0.07	0.62	2.66	
Mexico	0.77	0.40	1.63			2.08			0.23	0.22	
Philippines	0.81	0.09	0.30		0.03	0.18			0.00	2.72	
Saudi Arabia	0.30									1.21	
Thailand	1.28	0.84	2.12			0.29			0.00	1.41	

Source: WTO, S/C/W27

### 3. What are the Main Features of Egypt's GATS Commitments?

#### Commitments?

**DCs and LDCs: Percentage of countries making commitments, by sector.**



Egypt made commits in 3, 7, 9, 11.

### 3. What are the Main Features of Egypt's GATS Commitments?

#### Number of Service Commitments and Sectors Covered of Selected Organization for Islamic Countries

Countries	Number of Commitments	Number of sectors where Commitments were made	Av # of Commit./ sector
Turkey	72	9	8.00
Malaysia	69	9	7.67
Kuwait	44	8	5.50
Morocco	41	7	5.86
Pakistan	35	6	5.83
Egypt	28	4	7.00
Tunisia	11	2	5.50
Indonesia	7	6	1.17
Bahrain	4	1	4.00
Bangladesh	1	1	1.00

Sources: <http://www.wto.org/services/websum.htm>  
<http://www.icdt.org/publications/uttyy.htm>

### 3. What are the Main Features of Egypt's GATS Commitments?

#### Sectoral Coverage of Specific Commitments in Trade in Services Among Different Countries in Terms of Market Access and National Treatment (%)

	High Income Countries	Other Countries	Large Developing Countries	Bahrain	<b>Egypt</b>	Kuwait	Morocco
<b>Market Access</b>							
Average coverage (sectors/modes listed as a share of total GATS classification, weighted by openness and binding scale factors)	40.6	9.4	17.1	1.94	<b>10.48</b>	10.65	11.21
"No restrictions" as a share of total offer made	56.4	47.3	36.7	75	<b>47.1</b>	25	28.5
"No restrictions" as a share of total GATS classification	30.5	6.7	10.9	1.9	<b>7.9</b>	7.1	6.6

Source: World Bank and The IMF, 1996. "Egypt and the Uruguay Round".

### 3. What are the Main Features of Egypt's GATS Commitments?

#### Sectoral Coverage of Specific Commitments in Trade in Services (%)

	High Income Countries	Other Countries	Large Developing Countries	Bahrain	<b>Egypt</b>	Kuwait	Morocco
<b>National Treatment</b>							
Average coverage (sectors/modes listed as a share of total GATS classification, weighted by openness and binding scale factors)	42.4	10.2	18.8	1.94	<b>11.69</b>	11.61	15.65
"No restrictions" as a share of total offer made	65.1	60.4	49.3	75	<b>61.5</b>	28.4	64.6
"No restrictions" as a share of total GATS classification	35.3	8.5	14.6	1.9	<b>10.3</b>	8.1	15
<b>Memorandum</b>							
No restrictions on market access and national treatment as a share of total GATS classification	28	6.4	10	1.9	<b>7.9</b>	7.1	6.5

### 3. What are the Main Features of Egypt's GATS Commitments?

#### Analysis of Commitments

- Commitments in: construction, financial, tourism, and transport.
- Number of sectors subject to commitment is lower than an average DC (9.25) and an average LDC (5.06).
- Commits in sectors where a high percentage of countries make commitments.
- Business and communication services: NO COMMITS.

### **3. What are the main features of Egypt's GATS commitments?**

#### **Analysis of Commitments, Cont'd.**

- Total number of commitments is small compared to Turkey, Malaysia, Kuwait and Morocco.
- Number of commitments/sector high.
- Average coverage comparable to non high-income economies, but lower than large LDCs both for market access and national treatment.

# **4. What are the Main Service Liberalization Policies? Can They Underlie Egypt's Next Round of GATS Commitments?**


## **Main Sectors**

- 1. Telecommunication**
- 2. Banking and Insurance**
- 3. Tourism**
- 4. Maritime**
- 5. Air Transport**




## 4. What are the Main Service Liberalization Policies? Can They Underlie Egypt's Next Round of GATS Commitments?

### Telecommunication

- ARENTO  Joint Stock Company.
- Two private consortia for mobile phone service.
- Private provision of public phone service.
- Establishment of Regulatory body.
- No GATS commitments yet.

## 4. What are the Main Service Liberalization Policies? Can They Underlie Egypt's Next Round of GATS Commitments?

### Banking

- 80 percent of Banking in 4 public sector Banks.
- International Financial Standards.
- Law 155/1998  possible full privatization of 'Big Four' public sector banks.
- Limited additional liberalization to match Egypt's present GATS commitments.(check MOE)

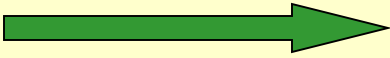
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### **Banking, Cont'd.**

- Present commitments supporting the status-quo and apply only to Joint Venture Banks (JVBs).
- Various restrictions on national treatment and/or market access for JVBs.
- Needs tests.
- Managers must be nationals.

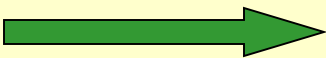
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### Insurance

- 90 percent of market in 3 public sector firms.
- Law 156/1998  privatization of the 3 large public sector insurance companies.
- Law allows majority private ownership.(beyond present GATS commits)
- No restriction on foreign management. (beyond present GATS commits).

## 4. What are the Main Service Liberalization Policies? Can They Underlie Egypt's Next Round of GATS Commitments?

### Tourism

- Sector more competitive with potentially growing share in int'l tourism  less risk of market power.
- Already a major contributor to BPO receipts.
- Commits represent status-quo:
  - license based on needs test;
  - foreign employees < 10% of total;
  - 49% limit on foreign equity in Sinai.

## 4. What are the Main Service Liberalization Policies? Can They Underlie Egypt's Next Round of GATS Commitments?

### Maritime

- Law 1/1998 removing state monopoly on maritime transport.
- New regulations and licensing to regulate maritime transport works.
- Law 22/1998 allows concessions to be granted to domestic or foreign investors to establish ports, or parts of existing ports.
- Partial privatization of two maritime transport companies.
- GATS commits, with all types of restrictions on access and national treatment.

## 4. What are the Main Service Liberalization Policies? Can They Underlie Egypt's Next Round of GATS Commitments?

### **Air Transport**

- BOOT project for 6 new airports.
- Maintenance of public monopoly in existing airports.
- Maintenance of Egypt Air's monopoly.
- Minimal charter activity.
- No GATS commits.

## 4. What are the Main Service Liberalization Policies? Can They Underlie Egypt's Next Round of GATS Commitments?

### **Weaknesses of Egypt's Service Liberalization Policies**

- Emphasis on privatization of service public sector firms.
- Need for strong Anti-Trust Laws.
- Service policies as vehicles for other goals: savings, foreign investment, privatization, export orientation of manufacturing.



## 4. What are the Main Service Liberalization Policies? Can They Underlie Egypt's Next Round of GATS Commitments?

### Can Present Service Liberalization Policies underlie Egypt's Next Round of GATS Commitments?

- Only if liberalization of services becomes a goal and not a tool to achieve other policies.
- Commitments in more competitive sectors  
business,  
value added telecom,  
tourism,  
and others.
- Less emphasis is put on privatization of banks and insurance companies and more emphasis is put on reducing their market power.

## **4. What are the Main Service Liberalization Policies? Can They Underlie Egypt's Next Round of GATS Commitments?**

**Why must general service liberalization become a priority?**

- Efficient resource allocation**
- Linkages with other sectors**
- Employment generation**
- Growth**
- Foreign Currency**

# 4. What are the Main Service Liberalization Policies? Can They Underlie Egypt's Next Round of GATS Commitments?

## Services in Egypt: 1992 Aggregated Type I and Type II Output, Income, and Employment Multipliers. (preliminary results)

Industry	Final Demand Multipliers					
	Output Multipliers (LE) <sup>1</sup>		Income Multipliers (LE) <sup>2</sup>		Employment Multipliers (jobs) <sup>3</sup>	
	Type I	Type II	Type I	Type II	Type I	Type II
Wholesale & retailing	1.19	1.82	0.14	0.22	124.30	177.32
Restaurants & hotels	1.74	2.66	0.20	0.33	138.93	217.20
Loading & warehousing.	1.41	2.14	0.16	0.26	53.81	115.10
Transportation	1.11	1.91	0.17	0.28	516.40	584.25
Financial institutions	1.17	3.09	0.42	0.68	389.67	552.28
Insurance	1.92	3.43	0.33	0.54	408.06	536.20
Real estate & housing	1.19	2.06	0.19	0.31	49.69	122.82
Social & society services	1.01	5.68	1.02	1.65	32.18	426.56
Entertainment & cultural services	1.28	3.03	0.38	0.62	82.50	230.43
Personal services	1.47	2.73	0.28	0.45	88.65	195.38

# 4. What are the Main Service Liberalization Policies? Can They Underlie Egypt's Next Round of GATS Commitments?

**1992 Aggregated Type I and Type II Output, Income, and Employment Multipliers in selected Industries. (preliminary results)**

# Conclusion

- **Egypt needs to be more aggressive in service liberalization and GATS commitments in competitive, or potentially competitive, sectors.**
- **The legacy of public sector ownership slows down liberalization of many of the key service sectors.**
- **Enhancement of service liberalization has to be set as a priority, independent of its role in enhancing the performance of other sectors of the economy.**