

**Trade Liberalization
and
Poverty Reduction in Egypt**

Dr. Samiha Fawzy

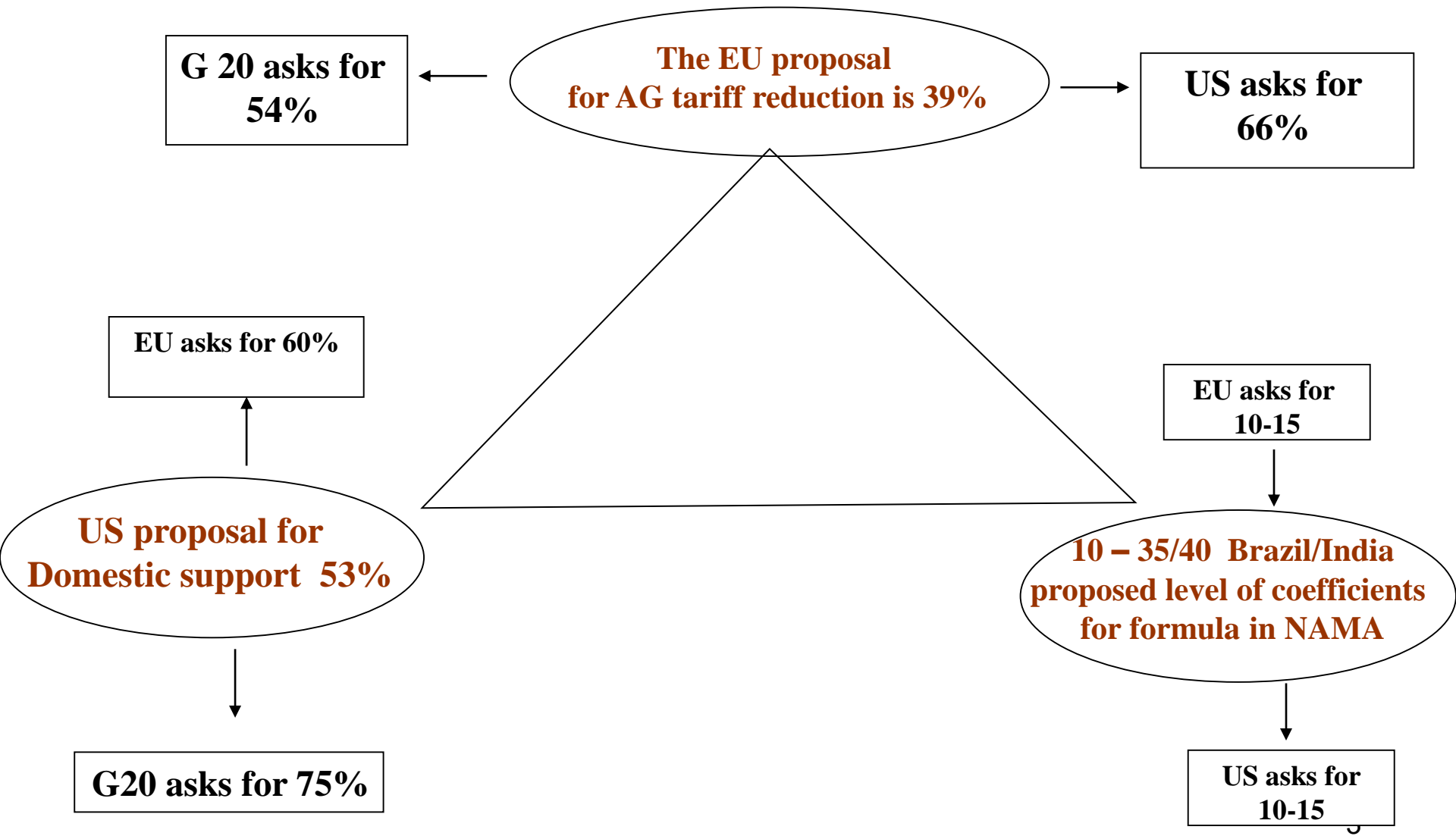
ECES, 18 July, 2006

Talking Points

- **The Doha Development Agenda**
- **Trade liberalization and Poverty: Lessons drawn from Theory and Practices**
- **The impact of trade Liberalization and domestic reform policies on poverty in Egypt**
- **Concluding Remarks**

The Doha Development Round: The Deadlock

The Triangle Issue



The DDA: Assessing the Trade Development Assistance

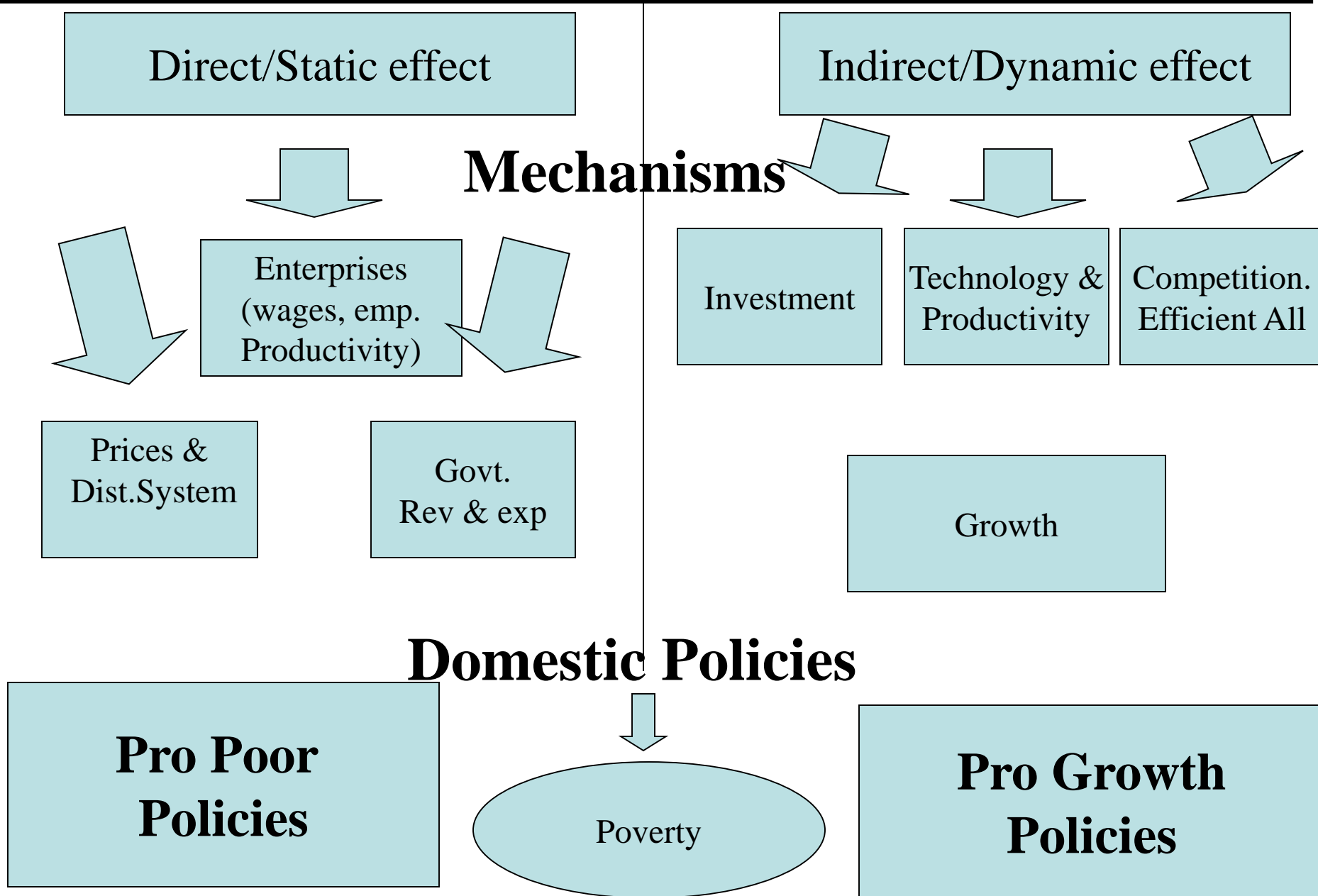
- Lack clear & transparent rules for allocation of financial and technical assistance
- Rules are generally set according to the usual donors conditionality and terms, without taking into consideration the specific needs of developing and least developed countries
- Weak Implementation process , mainly undertaken by donors without real engagement and ownership of recipients countries
- No clear Monitoring and Evaluation mechanisms

Trade liberalization and Poverty reduction: Lessons drawn from Theory & Practice?

- Debatable and complicated relations.
- Experience shows mixed results from country studies (East Asia +, Latin America -)
- Even in cases where trade liberalization was accompanied with gains for the poor, gains did not necessarily reach everyone
- No causal relation can be proved between trade liberalization and poverty
- Therefore, any accurate assessment of the impact of trade liberalization on Poverty should be carried on a case-specific basis.
- It also requires a detailed analysis of the:
 - Transmission mechanisms
 - Domestic policies

What are these mechanisms and policies?

Lessons Drawn: Transmission Mechanisms



Lessons Drawn: Domestic Policies

➤ Pro Growth:

- Macro-economic stability
- Conducive/attractive Business Environment
- Privatization and de-regulation
- Institutional reform (legal , Judicial & regulatory)

➤ Pro Poor:

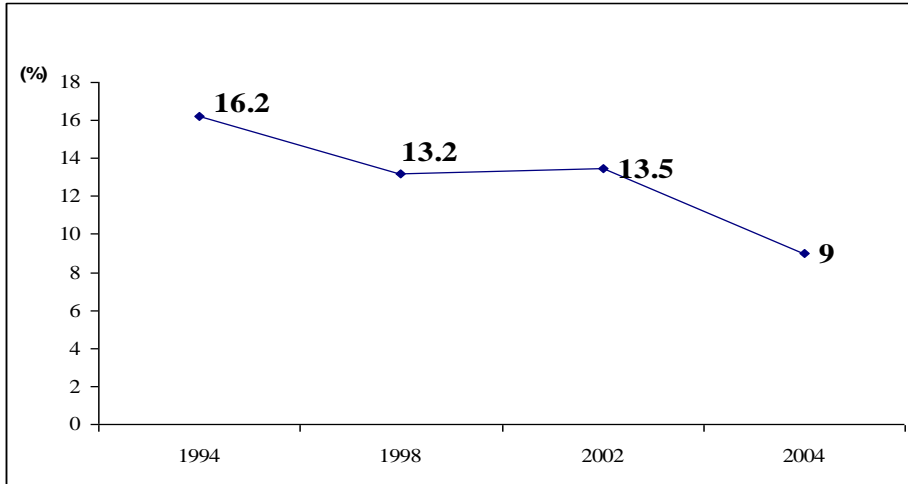
- Labor market
- Education system & Technical and vocational training
- Social safety nets and re-distribution policies
- Compensation mechanisms
- Agriculture Policy
- Regional development policies

What Happened in the case of Egypt?

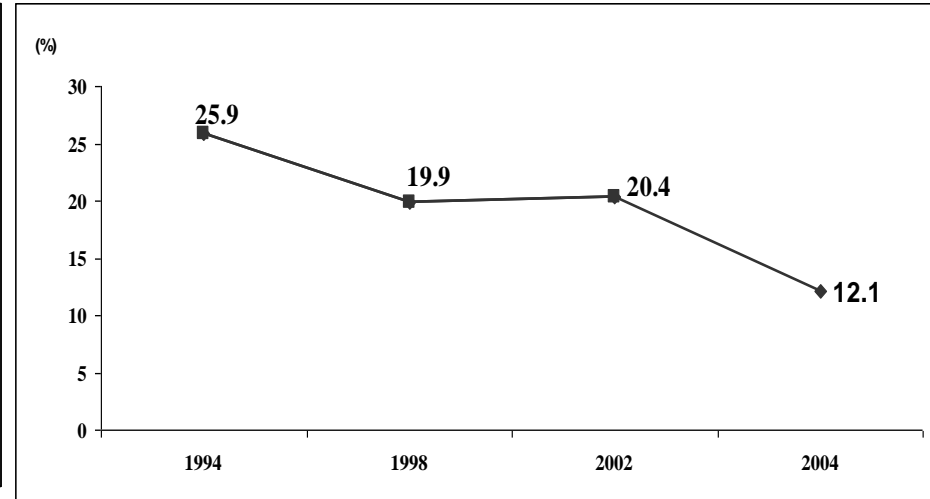
Trade Liberalization in Egypt

➤ Unilateral Reduction in Tariff Rates

Average Weighted Tariff Rate



Average Un-Weighted Tariff Rate



➤ **Bilaterally:** AA and Progress on the ENP (2001 AA), TIFA with U.S. (1999)-FTA with Turkey (2005),

➤ **Regionally:** COMESA (1998)-GAFTA (2005), Aghadeer (2004)

➤ **Multilaterally:** Doha Development Round

Trade liberalization was coupled with domestic reforms 8

Domestic reform Policies in Egypt

Pro Growth

- **Macro-economic stability**
- **Banking Reform:** Restructuring the banking sector, listing Bank of Alexandria for privatization, inter-bank market for foreign exchange
- **Improving the Business Climate:** a “One Stop Shop” bringing together 32 governmental bodies to simplify and expedite services provided to investors,, Halving corporate tax from 42% to 20% , streamlined tax collection procedures, Easing land allocation to investors
- **Privatization and deregulation:**5.64 billion L.E. privatization proceeds in FY04/05
- **Institutional upgrading and Reform:** Sectoral Regulatory agencies, Competition Authority Revival of Industrial Modernization Center and establishment of General Industrial Development Authority

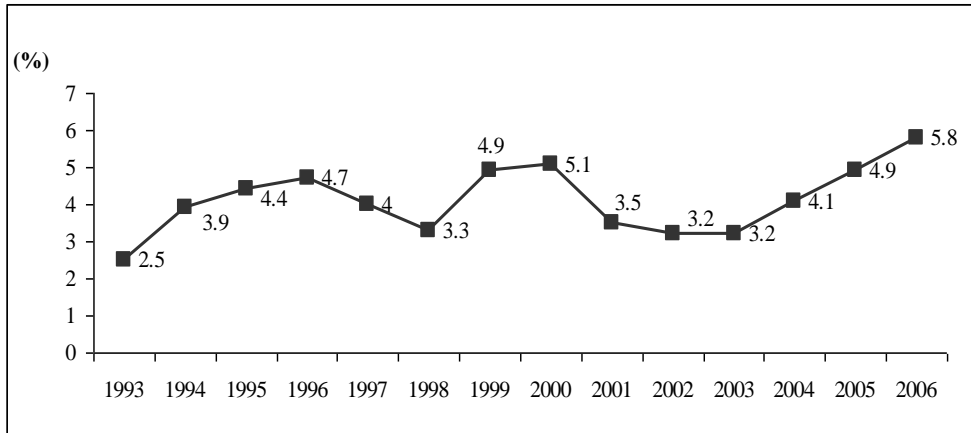
Pro Poor

- **Education System & Technical and Vocational Training?**
- **Labor Market flexibility?**
- **Regional development policies?**
- **Agricultural policy ?**
- **Social Safety net and better targeting of the poor?**
- **Compensation mechanisms ?**

What is the impact of trade liberalization and domestic reform policies on the poor in Egypt?

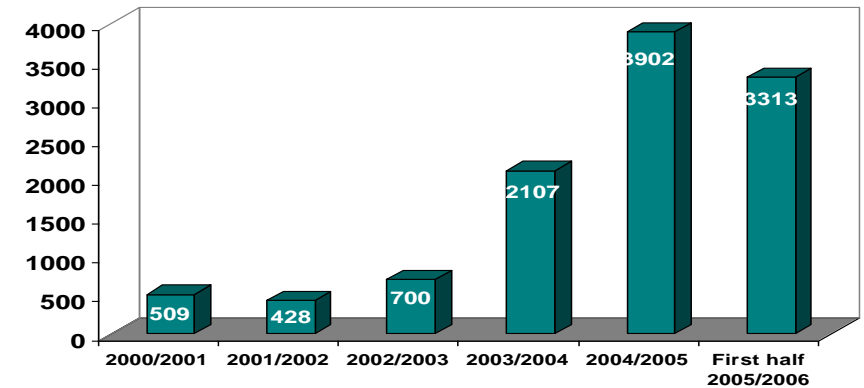
It Paid Off: Key Performance Indicators

GDP Growth Rate

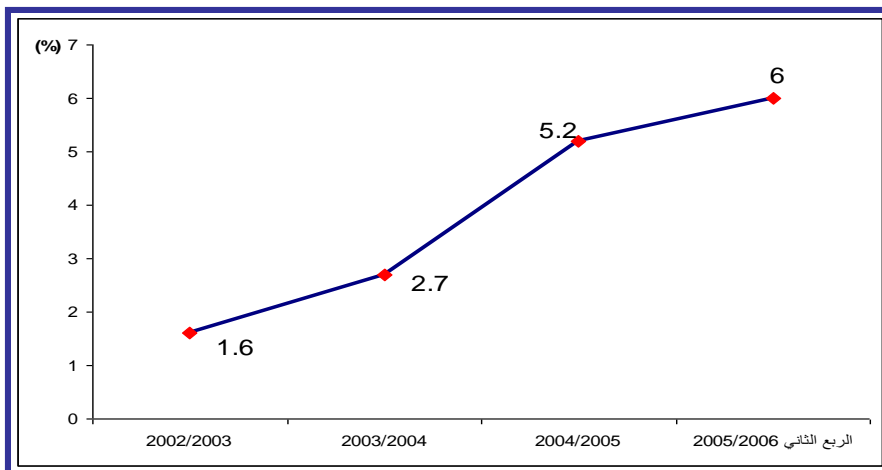


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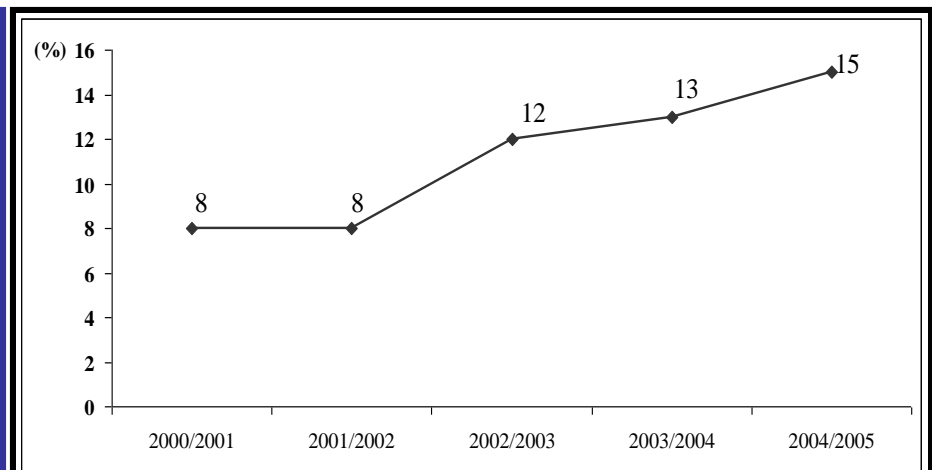
Net FDI Inflows



Industrial Production Growth Rate



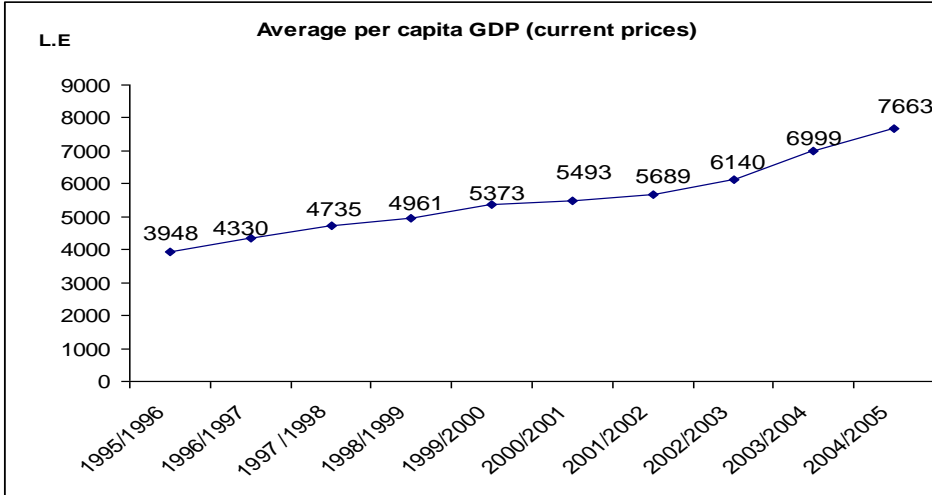
Share of Total Exports in GDP



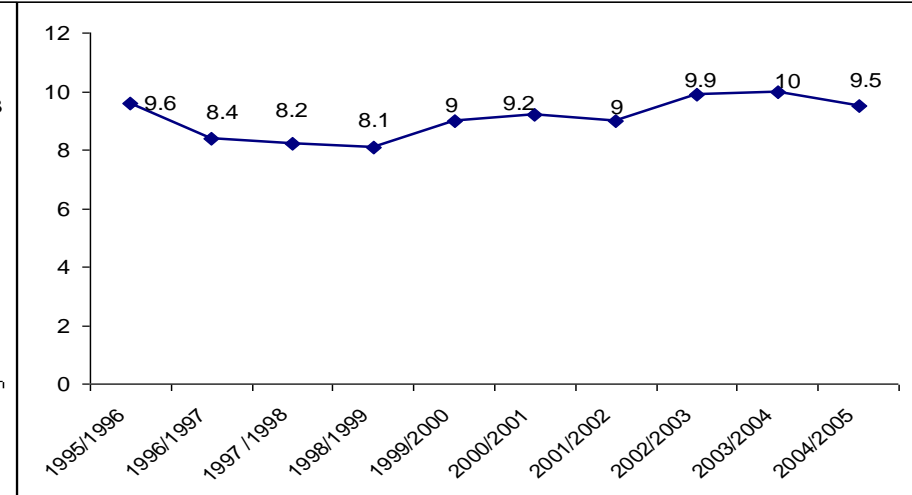
These gains can not be solely attributed to trade liberalization

Impact on Poverty

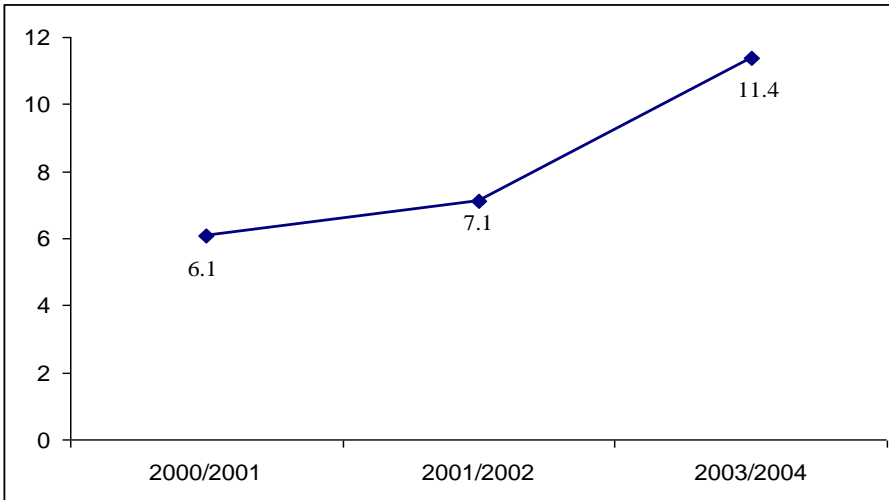
Average Per Capita Income



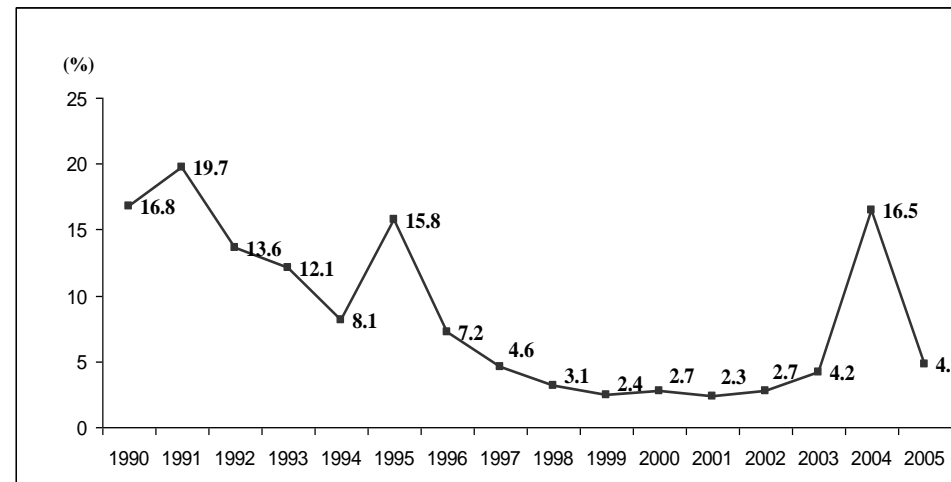
Unemployment Rate



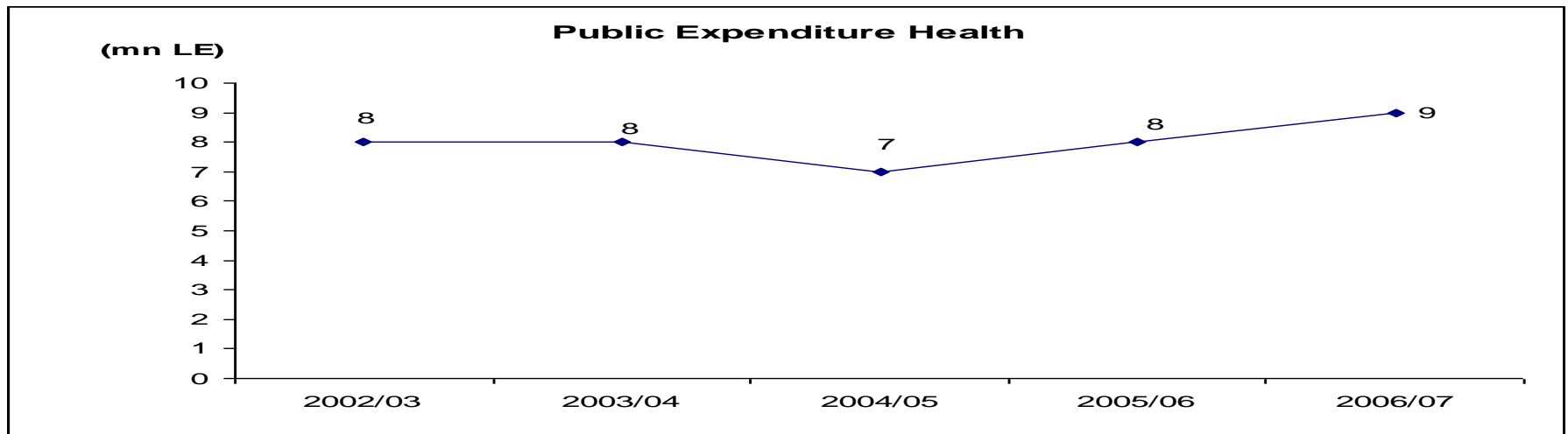
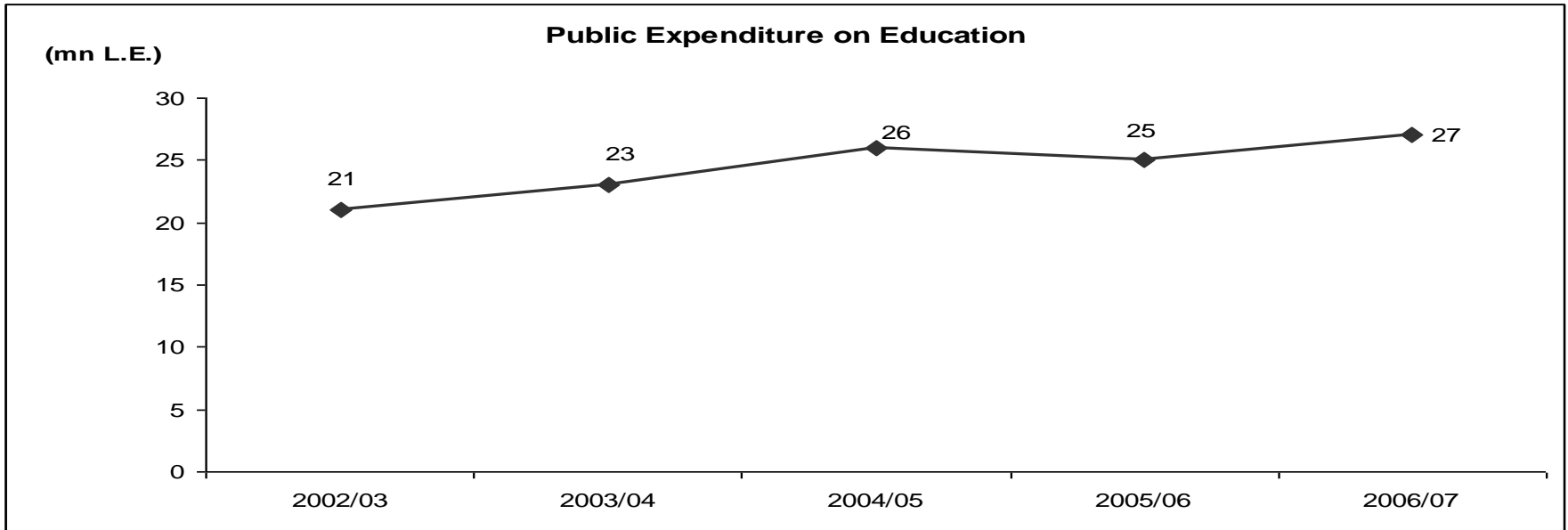
Share of Expenditure on Social Safety Nets in Total Public Expenditure



Inflation Rate



Impact on Poverty



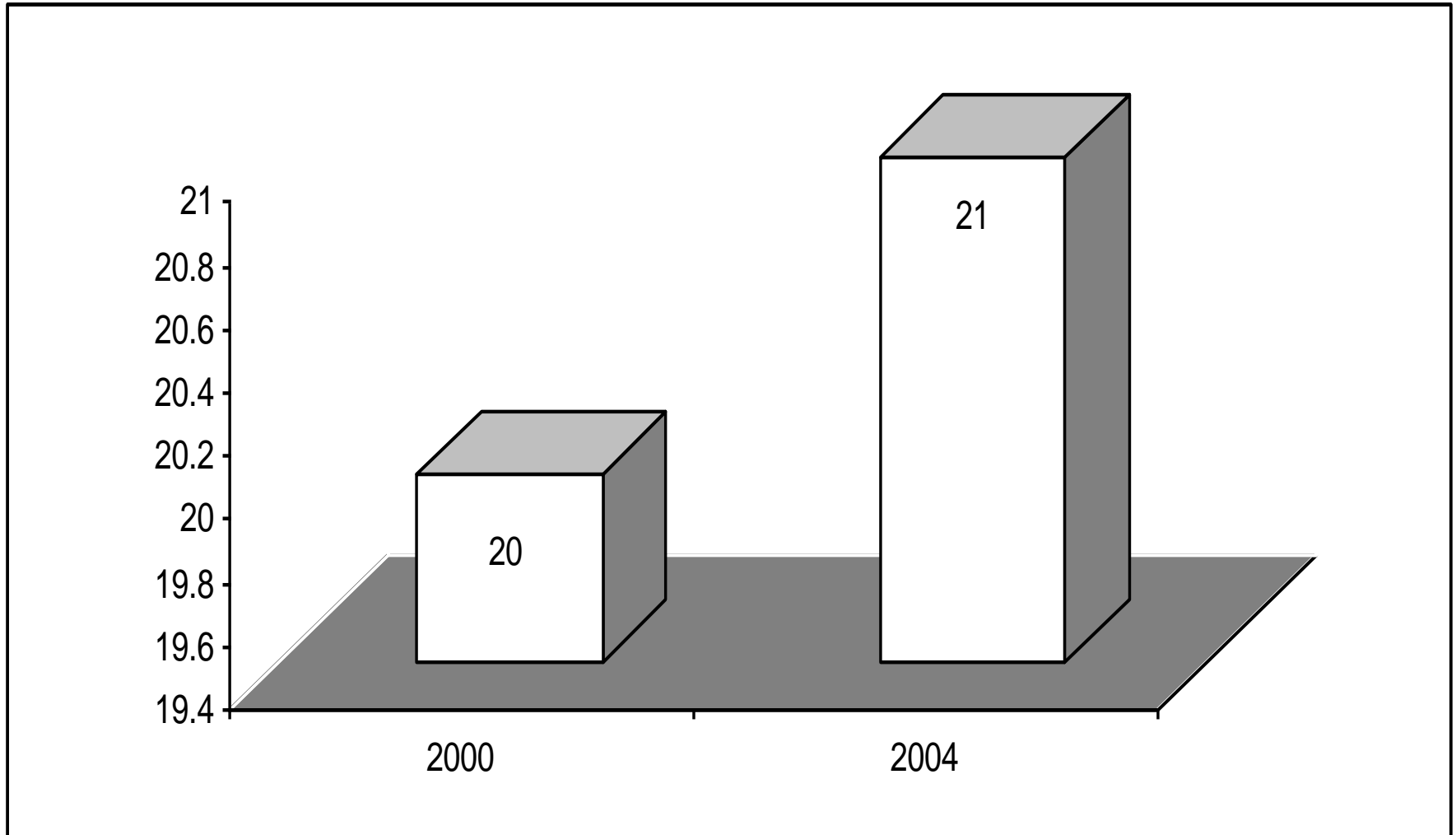
70 Clothing Companies: Survey Results 2005-2006

- **50 of large existing companies have expanded their activities**
- **20 new Foreign companies**
- **Increase in investment by 25%**
- **Increase in exports by 30%**
- **Increase in employment by 15%**
- **Increase in average wages from 350LE monthly to around 600LE monthly**

Despite these positive indicators, reducing poverty remains a key challenge in Egypt

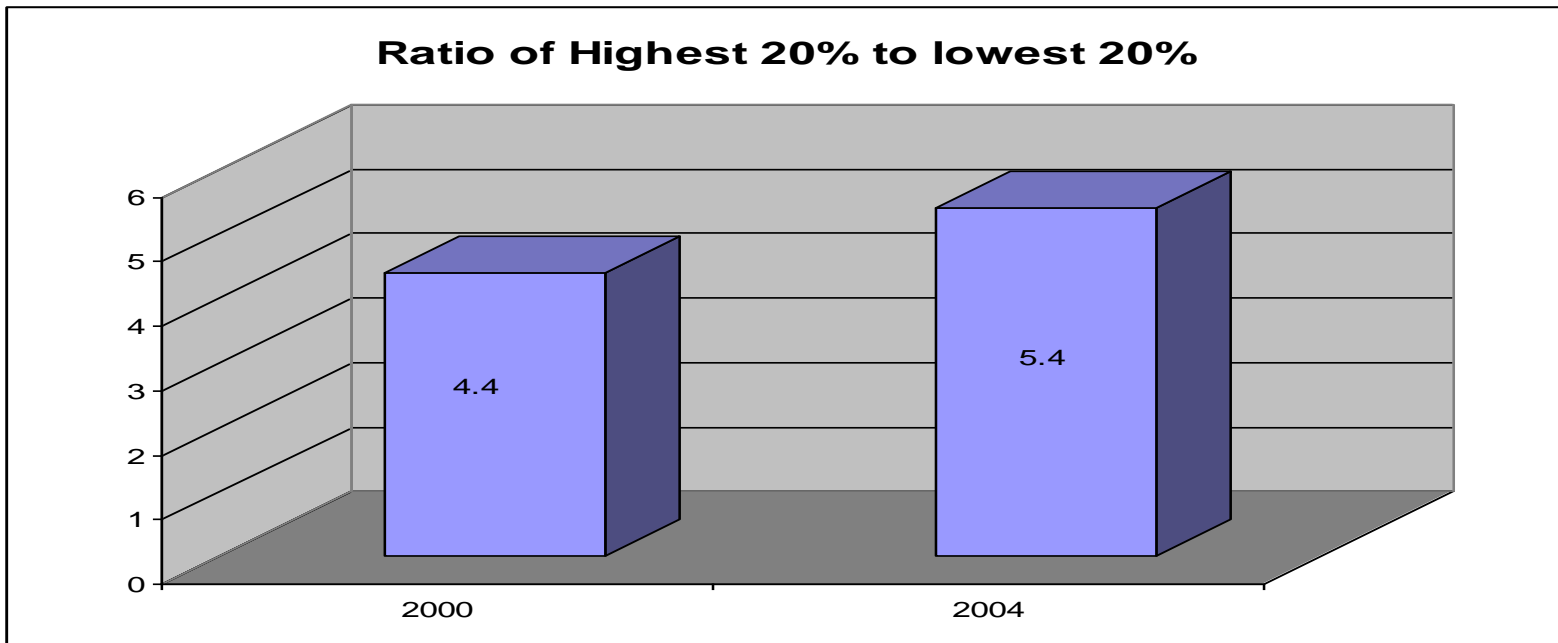
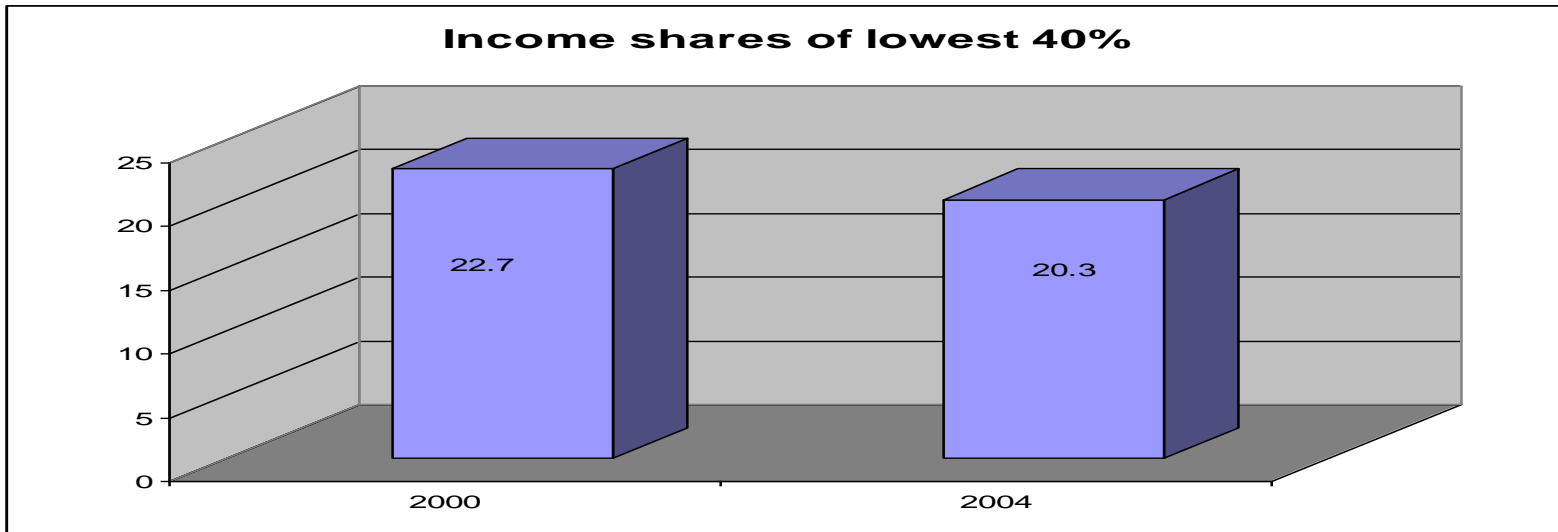
Impact on Poverty*

% of poor in total population



* The poor are defined as those living on less than \$2/day in urban areas and \$1.5/day in rural areas

Impact on Poverty: Income Distribution



Concluding Remarks

- **Trade liberalization only will not reduce poverty. It is not a magic stick .**
- **Poverty reduction depends on the Countries' vision and strategy for growth, and in particular its Pro-Poor policies such as:**
 - **Regional development policy**
 - **○ Agriculture policy**
 - **Labor market Flexibility**
 - **Education and vocational training**
 - **Social safety net and better targeting of the poor**