CAUGHT IN THE CROSSFIRE:

ASSESSING THE IMPACT OF THE US-CHINA TRADE WAR ON EGYPT'S ECONOMY

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Abstract

This study analyzes how the escalating US-China trade conflict affects Egypt as a bystander country. It examines the trade war's exacerbation of Egypt's existing economic weaknesses and explores its impact on various sectors, with growth forecasts for Egypt from 2024 to 2029 under different global trade scenarios. The paper suggests that Egypt can mitigate the negative effects by diversifying trade partners, improving export competitiveness, and leveraging its geographical location. Policy reforms in trade facilitation and industrial strategy are key to turning these challenges into opportunities, particularly by enhancing Egypt's role in global supply chains. In summary, the study offers insights and recommendations for policymakers, urging strategic adaptation and proactive engagement to navigate trade tensions and harness potential opportunities in the shifting global trade environment.

ملخص

تتناول هذه الدراسة بالتحليل تأثير تصاعد النزاع التجاري بين الولايات المتحدة والصين على مصر كطرف غير مباشر؛ حيث تناقش تفاقم نقاط الضعف القائمة التي يعاني منها الاقتصاد المصري بالفعل نتيجة الحرب التجارية وتأثير ذلك على مختلف القطاعات، وتستعرض توقعات النمو لمصر خلال الفترة من عام 2024 إلى عام 2029 في ظل عدة سيناريوهات مختلفة للتجارة العالمية. كما تقترح الورقة أن تقوم مصر بتخفيف هذه الآثار السلبية من خلال تنويع شركائها التجاريين، وتحسين القدرة التنافسية للصادرات، والاستفادة من موقعها الجغرافي، وتشير كذلك إلى أن كلا من الإصلاحات في مجال السياسات لتيسير التجارة، والاستراتيجية الصناعية، يشكلان عوامل مهمة لتحويل هذه التحديات إلى فرص، لا سيما من خلال تعزيز دور مصر في سلاسل الإمداد العالمية. باختصار، تطرح الدراسة بعض الأفكار والتوصيات لصناع السياسات، داعية إلى التكيف الاستراتيجي والمشاركة الاستباقية للتغلب على التوترات التجارية والاستفادة من الفرص المحتملة في بيئة تجارة عالمية تتسم بالتغير.

LIST OF ACRONYMS

Acronym	Full Form
ASEAN	**Association of Southeast Asian Nations**
BRICS	**Brazil, Russia, India, China, South Africa, Egypt, Ethiopia, Indonesia, Iran and United Arab Emirates**
BRI	**Belt and Road Initiative**
EGP	**Egyptian Pound**
EU	**European Union**
FDI	**Foreign Direct Investment**
GDP	**Gross Domestic Product**
ITC	**International Trade Center**
OECD	**Organisation for Economic Co-operation and Development**
RCEP	**Regional Comprehensive Economic Partnership**
SCA	**Suez Canal Authority**
USD	**United States Dollar**
USTR	**United States Trade Representative**
WTO	**World Trade Organization**

INTRODUCTION: WHERE THE STORY BEGINS?

"A Global Tug of War: What It Means for Egypt"

Over the last decade, tensions between China and Western countries, especially the US, have been escalating significantly. A trade war between the US and China, which unfolded during the first Trump administration, became a defining feature of this strained relationship. Leading Chinese companies have been sanctioned by the US under the context of national security concerns. Even the European Union (EU) has described China as a “systemic rival”. A Trump win of the US elections in November 2024, reignited worries that the US and China might once again reduce their reliance on each other. Some observers even fear that the growing competition between the two could lead to a conflict like the Cold War of the 20th century. However, these views might seem exaggerated for the time being as the current situation is very different from the one that created a climate of fear throughout the second half of the 20th century (Inter-regional for Strategic Analysis 2023).

In this context, it is crucial to analyze how these global tensions influence bystander countries like Egypt. Situated at a key crossroads of global trade, Egypt maintains strategic economic ties with both the US and China. This situational analysis will explore the ripple effects of the US-China trade war on Egypt’s trade dynamics, examining changes in its trade balance, sectoral impacts, and the implications for Egyptian policy.

1. THE ORIGINS OF THE US-CHINA TRADE WAR

On September 21, 2011, before running for president, Trump tweeted, "China is neither an ally nor a friend—they want to beat us and own our country." This tweet was among several statements he made criticizing China’s trade practices. During his campaign for the Republican Party’s presidential nomination on May 2, 2016, Trump said, "We can’t continue to allow China to rape our country and that’s what they’re doing. It’s the greatest theft in the history of the world."

On April 6-7, 2017, Xi Jinping visited Trump’s Mar-a-Lago estate in Florida, where they agreed to set up a 100 Day Action Plan to resolve trade differences. Later, on April 28, 2017, the USTR was authorized to investigate whether steel/aluminum imports posed a threat to national security. On May 22, 2017, the US and China agreed to a trade deal that would give

US firms greater access to China's agriculture, energy, and financial markets, while China gained access to sell cooked poultry to the US. On August 18, 2017, the USTR initiated an investigation into certain acts, policies, and practices of the Chinese government relating to technology transfer, intellectual property, and innovation.

From November 8-10, 2017, Trump paid a "state visit plus" to China, where relations were considered to have warmed. However, on February 7, 2018, the US implemented 'global safeguard tariffs,' placing a 30 percent tariff on all solar panel imports, except for those from Canada, and a 20 percent tariff on washing machine imports.

Finally, on March 22, 2018, Trump signed a memorandum directing the following actions: filing a WTO case against China for their discriminatory licensing practices, restricting investment in key technology sectors, and imposing tariffs on Chinese products such as aerospace, information communication technology, and machinery. By September 1, 2019, the US imposed tariffs on $112 billion worth of Chinese goods, including footwear, food products, and home electronics, while China retaliated with additional tariffs on $75 billion worth of US imports. These measures marked a peak in their tit-for-tat trade restrictions throughout 2019 (Statista 2022).

Figure 1. US Tariffs on Chinese Imports from 2018 to 2019

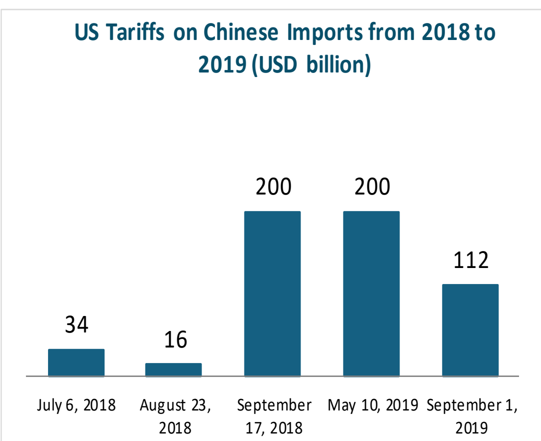
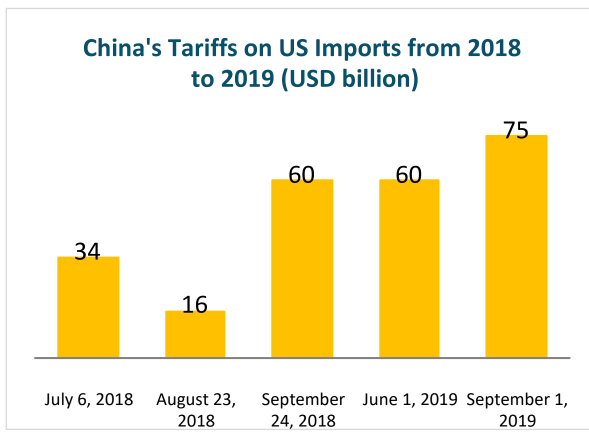


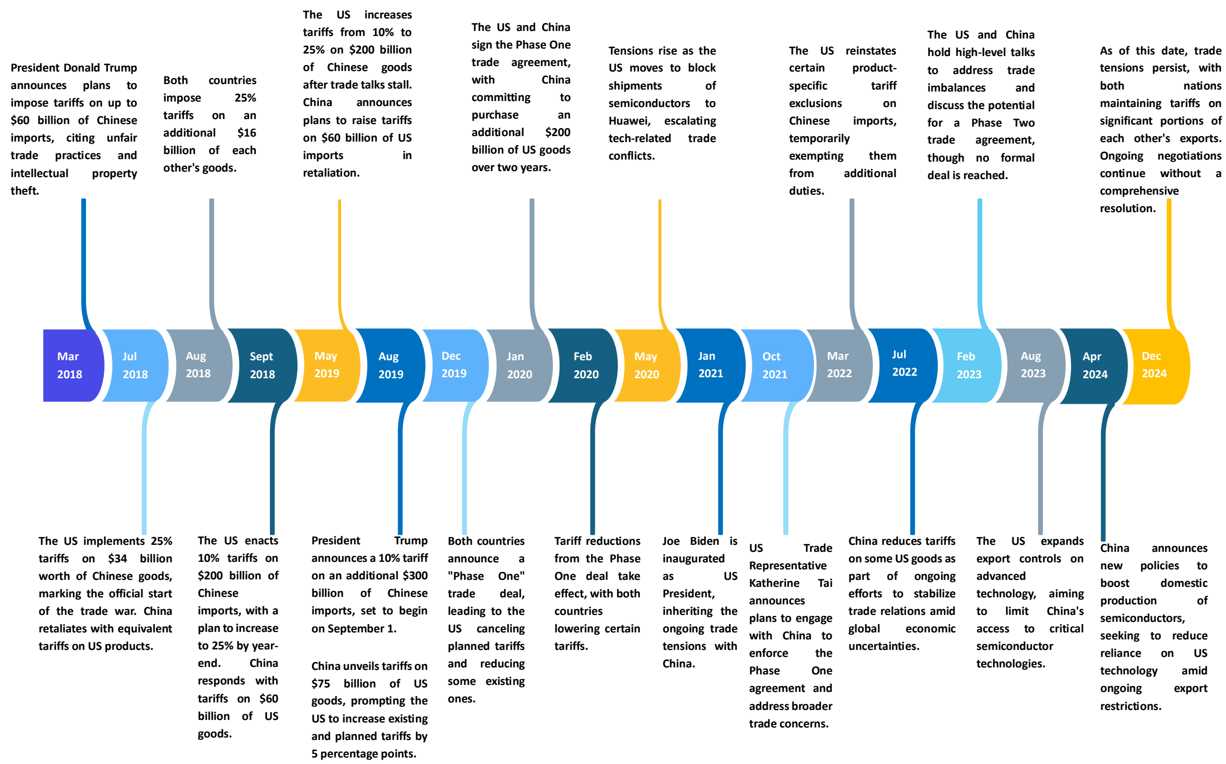
Figure 2. China's Tariffs on US Imports from 2018 to 2019



Sources: BBC; Peterson Institute.

At its height, the US applied tariffs of 15 percent on $300 billion and 30 percent on $250 billion of Chinese goods, while China imposed tariffs of 5–10 percent on $75 billion and 20–25 percent on $110 billion of US imports (Reuters 2024).

Figure 3. Timeline of the US-China Trade War



Sources: Financial Times, Reuters, Skadden, and Mullen (2022).

In late 2019 and early 2020, the two countries signed the Phase One trade deal, which required China to purchase a set amount of US goods. While both countries reduced some tariffs and offered trader-specific exceptions, the agreement left most tariffs intact. The coronavirus pandemic disrupted China's ability to meet its commitments under the deal, further straining trade relations. Amid this backdrop, new disputes have emerged, including US actions against Chinese apps like TikTok and WeChat, creating further challenges for ongoing trade talks. Efforts to evaluate the Phase One agreement continue, but the environment remains tense and uncertain (Financial Times 2023).

1.1. The Bystander Effect in Trade Conflict

The US-China trade war, which intensified under the Trump administration, led to the imposition of tariffs on approximately $550 billion in bilateral trade by 2023, marking a significant shift in global trade dynamics. This escalation prompted China to impose retaliatory tariffs on over $185 billion worth of US imports, specifically targeting sectors such as soybeans, automobiles, and chemicals. This development is considered one of the most significant transformations in global trade policy in recent decades, affecting not only the direct participants but also the broader global economy (Skadden 2024).

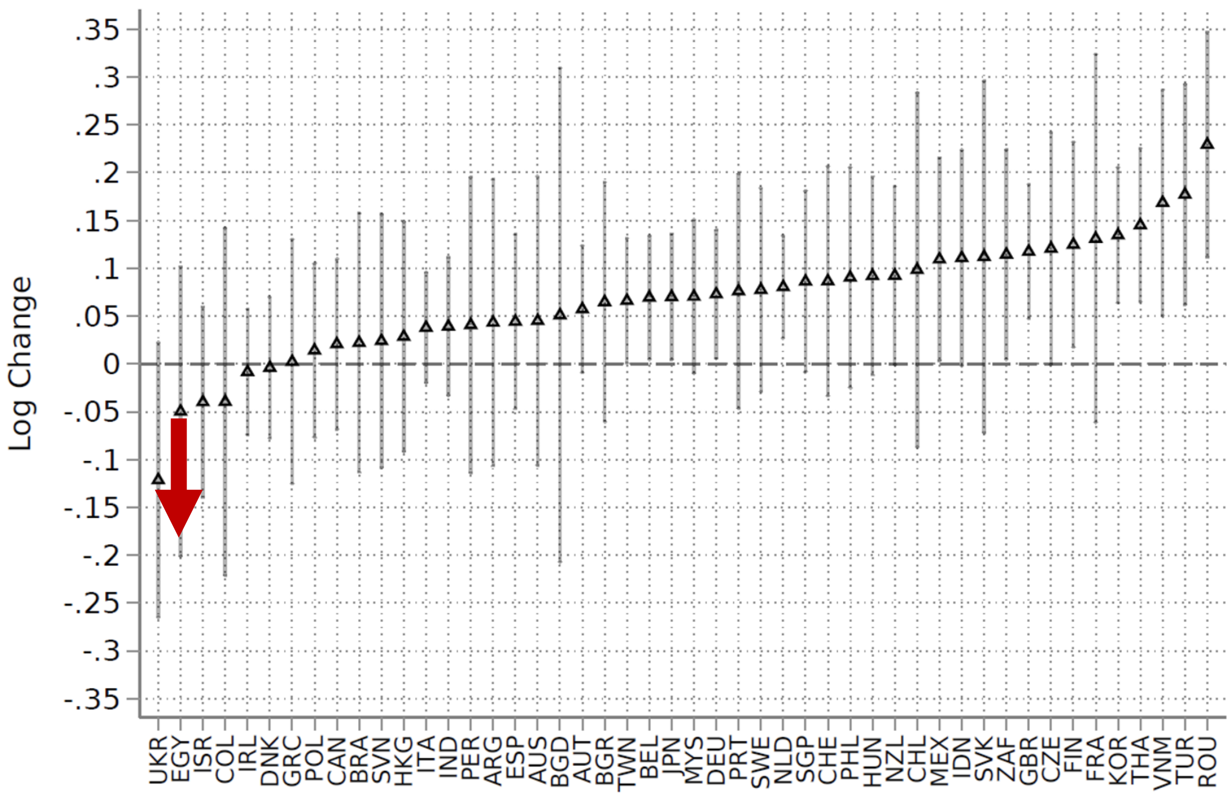
Countries not directly involved in the conflict, referred to as **"bystander countries,"** experienced indirect effects. Egypt, as one such bystander economy, encountered shifts in trade flows and price volatility, presenting both challenges and opportunities for replacing disrupted supply chains. The realignment of global trade routes and fluctuations in commodity prices fostered new economic dynamics. For instance, the shift of the soybean market from the US to South America not only benefited countries like Brazil but also altered traditional trade patterns, impacting countries accustomed to established markets.

The study by Fajgelbaum et al. (2023) highlights the heterogeneity in how bystander countries responded to the shifts in global trade caused by the US-China trade war. **For some countries, the conflict opened doors to expand exports, particularly to the US and other global markets. However, Egypt, along with countries like Ukraine and Colombia, experienced a decline in export opportunities. This decline underscores the need to analyze Egypt's position and factors that hindered its ability to capitalize on the disruptions (Fajgelbaum et al. 2023).**

The responsiveness of bystander countries to trade opportunities is influenced by a combination of supply-side and demand-side factors. Fajgelbaum et al. (2023) points to country-specific elasticities—such as trade policies, institutional frameworks, and the ability to adapt supply chains—as key determinants of export growth. For Egypt, these factors may include:

- Limited Trade Integration: Compared to winners like Vietnam and Thailand, Egypt's integration into global supply chains remains limited.
- Weak export Competitiveness: The relatively high cost of production and limited diversification in export products could reduce Egypt's competitiveness in substituting Chinese goods in US markets.
- Trade Facilitation Barriers: Challenges such as logistics inefficiencies, regulatory hurdles, and limited investment in export-oriented industries may have prevented Egypt from capitalizing on new trade opportunities.

Figure 4. Average Log Change in Export Growth for Bystander Countries Affected by the US-China Trade War



Sources: Taken from Fajgelbaum et al. 2023.

The graph illustrates the relative impact of the US-China trade war on export growth for various "bystander" countries. Each country is represented by a triangular marker showing the average log change in export growth, along with error bars indicating the confidence interval for each estimate. The countries are ranked from left **(negative or negligible impact)** to **right (positive impact)**, providing a clear visualization of how global trade disruptions affected countries differently. The error bars on the graph indicate variability and uncertainty in the data. While some countries like Vietnam exhibit both high growth and narrow confidence intervals **(indicating consistent performance)**, Egypt's error bars suggest some fluctuation, though the overall trend remains negative. (Fajgelbaum et al. 2023).

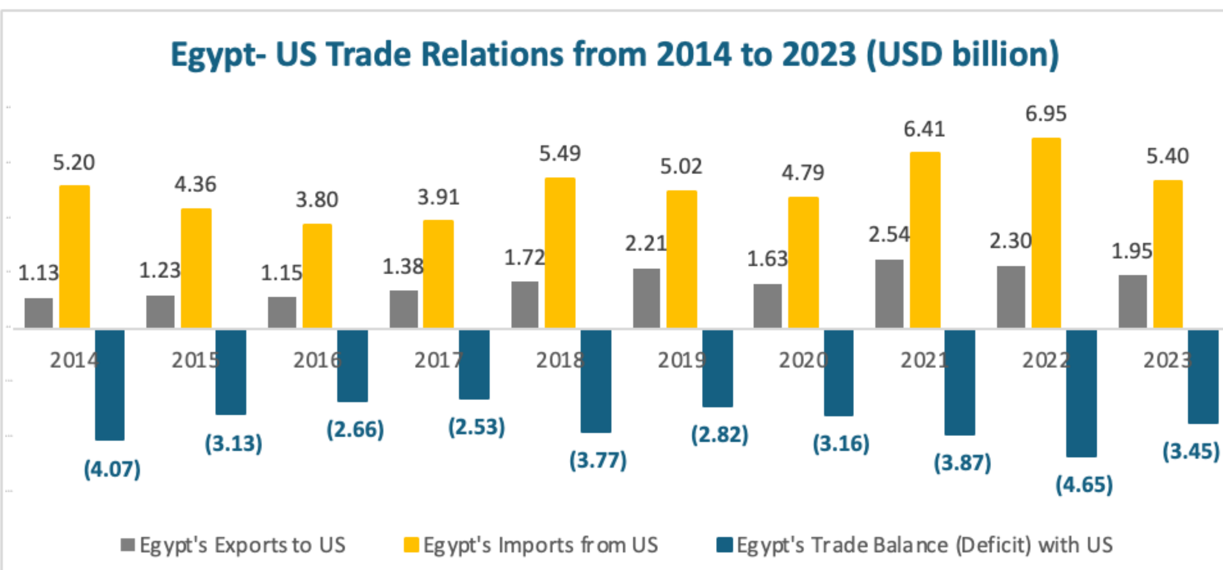
Egypt's export growth suffered during the trade war. Alongside Ukraine, Israel, and Colombia, the country's log change in export growth was below zero, indicating a failure to capitalize on the gap created by reduced US-China trade. This aligns with previous findings that structural and policy barriers limited Egypt's ability to respond dynamically to new trade opportunities. The log change for Egypt is approximately -0.05, a small but meaningful decline compared to countries like Vietnam, which show changes exceeding +0.25. This indicates that even minor shifts in global trade dynamics can have significant repercussions for smaller economies (Fajgelbaum et al. 2023).

Countries like Vietnam, Romania, and Turkey are on the far right, showcasing significant export growth in sectors affected by tariffs. Vietnam, for instance, experienced robust gains by positioning itself as an alternative manufacturing hub for US imports. Egypt's relative lack of integration into global value chains and its constrained trade capacity likely explain its contrasting performance (Fajgelbaum et al. 2023).

2. EGYPT'S STRATEGIC TRADE RELATIONS WITH THE US AND CHINA

Egypt's trade relations with the US and China are pivotal. In 2023, US contributed significantly to sectors like technology and agriculture. While China is Egypt's largest trading partner, accounting for 16 percent of imports. Egypt exports commodities like textiles and petroleum to both countries.

Figure 5. Analyzing Egypt-US Trade Relations from 2014 to 2023



Sources: International Trade Center (ITC).

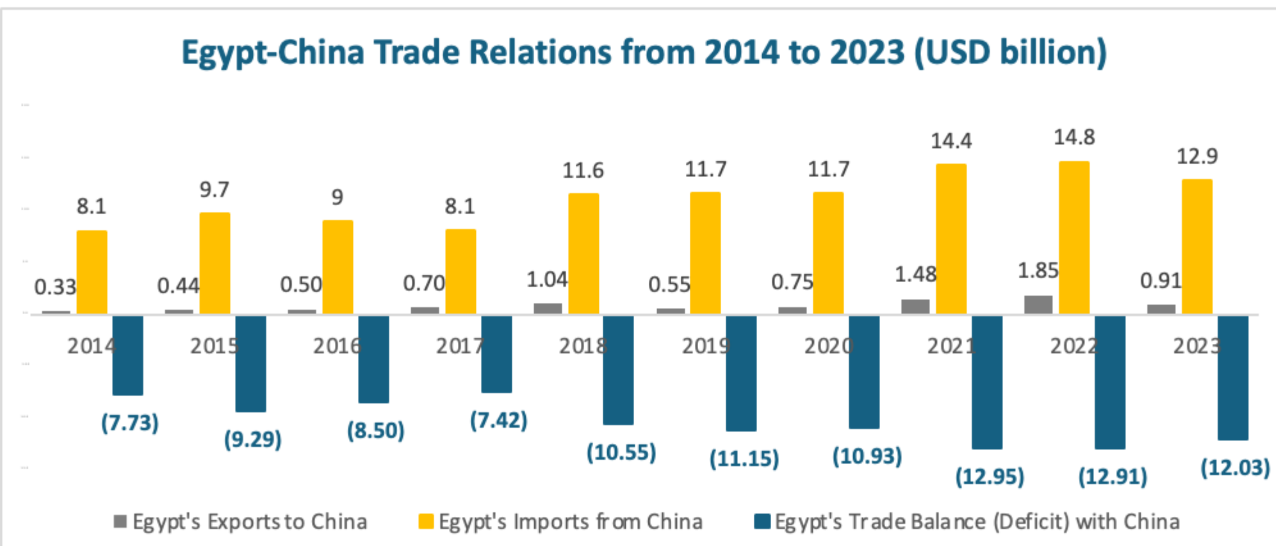
Over the last ten years, Egypt has experienced a persistent trade deficit with the United States, averaging approximately $3.57 billion annually. Data from the International

Trade Center (ITC 2024) shows that Egyptian imports from the US have consistently exceeded its exports. Notably, imports reached a peak of $6.95 billion in 2022, while exports have varied, with the lowest at $1.13 billion in 2014 and peaking at $2.54 billion in 2021, before decreasing to $1.95 billion in 2023.

Key observations include:

- **Consistent Trade Deficit:** Over the period, Egypt's trade deficit with the US has ranged between $2.53 billion and $4.65 billion. The fluctuations in this deficit have largely been influenced by global economic dynamics and shifts in the bilateral trade policies between the two nations.
- **Influence of Trade Policies:** Notably, there were periods such as in 2019 when the trade deficit narrowed slightly. This reduction correlates with a diversified expansion in exports, particularly in sectors such as textiles and agricultural products, reflecting the impact of strategic trade policies aimed at enhancing Egypt's export capabilities in these areas.

Figure 6. Analyzing Egypt-China Trade Relations, 2014–2023



Sources: International Trade Center (ITC).

Egypt's trade imbalance with China presents a stark contrast to its economic interactions with other trading partners, with a substantial average annual trade deficit of $10.64 billion. According to data from the International Trade Center (ITC 2024), Egyptian imports from China have surged to $14.8 billion by 2022. In contrast, Egyptian exports to China have seldom surpassed $1 billion, reaching their zenith at $1.85 billion in 2022.

Key observations from this trend include:

- **Escalating Trade Deficit:** Egypt's trade deficit with China has been expanding over the years, escalating from $7.73 billion in 2014 to $12.03 billion in 2023. This increase underscores the preponderance of Chinese goods in Egypt's import market, particularly in sectors such as machinery, electronics, and textiles.
- **Stagnant Export Growth:** Despite initiatives aimed at boosting its export sector, Egypt's export figures to China remain markedly low in comparison to its imports. This disparity highlights ongoing challenges in market diversification and accessing the Chinese market, reflecting structural limitations in Egypt's export strategy.

2.1. Why This Matters: Policy Implications for Egypt?

Over the last decade, Egypt has witnessed a significant shift in its economic alliances, characterized by China's escalating influence and the comparative decline of the United States in trade and investment realms. This realignment bears critical implications for Egypt's economic resilience, geopolitical stance, and strategic development pathways.

China's engagement with Egypt, particularly under the Belt and Road Initiative (BRI), has transformed Egypt into a pivotal regional ally. From 2017 to 2022, Chinese investments in Egypt have skyrocketed **by 317 percent,** starkly contrasting **with a 31 percent decrease in US** investments during the same timeframe. Consequently, China has emerged as Egypt's largest trade partner, with bilateral trade expanding markedly. According to the International Trade Center (ITC 2024), imports from China surged from $8 billion in 2017 to $14.4 billion in 2022, while Egyptian exports to China grew from $693 million to $1.8 billion. This growing economic dependency is particularly evident in sectors dominated by Chinese imports such as machinery, electronics, and textiles.

Additionally, China's role in Egypt extends to significant infrastructure projects, epitomized by the construction of the Iconic Tower in Egypt's New Administrative Capital. This project, among others facilitated by major Chinese firms like the China State Construction Engineering Corporation, underscores China's integral role in supporting Egypt's Vision 2030 development plan.

In stark contrast, the economic influence of the United States in Egypt has waned. The US share of Egyptian imports fell to a mere 6.2 percent in the last fiscal year, totaling about $1.2 billion. While the US. continues to engage with Egypt primarily through aid and security cooperation, it lacks the deeper cultural and political connections that China has cultivated.

The ongoing US-China trade war further complicates this scenario, accentuating the strategic implications for Egypt's trade relationships. Egypt's heavy reliance on Chinese industrial and consumer goods may expose it to supply chain disruptions if the trade conflict intensifies. Moreover, while growing exports to China bolster Egypt’s trade balance, they also risk creating an overreliance on a single market, potentially stifling diversification efforts.

However, these dynamics also present opportunities for Egypt. The robust trade relationship with China enables access to advanced technology and competitive industrial inputs, enhancing Egypt's industrial capacity and overall productivity. Furthermore, increasing exports to China provides a stable market for Egyptian products, potentially fostering more foreign investment and economic cooperation.

The US-China trade dispute might also offer Egypt a unique opportunity to position itself as an alternative trade partner for both nations. By leveraging its strategic geographical location and existing trade agreements, Egypt can attract businesses looking to diversify away from the US-China trade axis, thereby attracting more foreign direct investment and creating jobs.

In summary, while Egypt's dependency on Chinese trade presents certain risks, it also offers substantial opportunities for growth, modernization, and economic diversification. Strategic management of its trade relationships and investments will be crucial for Egypt to both mitigate risks and maximize the benefits derived from its evolving ties with China.

Concerning the Impact on the Exchange Rate and Capital Outflows: The trade war between the US and China has introduced significant volatility into global financial markets, impacting currency valuations like the US dollar and the Chinese yuan. This volatility has had indirect effects on emerging economies, including Egypt, where capital flight in search of safer investments has pressured the Egyptian pound (EGP). The reliance of Egypt on foreign direct investment (FDI) and portfolio inflows for maintaining its exchange rate stability has made it particularly vulnerable. During periods of intensified trade conflicts, global investors tend to become more cautious, often pulling back from markets perceived as risky. Despite Egypt's relative market stability, bolstered by IMF-backed economic reforms, it experienced diminished capital inflows during these times, restricting the availability of hard currency and contributing to a depreciation of the EGP.

By the end of 2024, the EGP had depreciated significantly, reflecting Egypt's complex economic challenges. Starting the year at 30.757 to the USD, it plummeted to a record low of 50.99 by December, a stark depreciation of over 65 percent within just one year. This depreciation was influenced by several key factors:

- **Global Trade Disruptions**: The ongoing US-China trade conflict disrupted global trade patterns, impacting Egypt's export revenues and foreign exchange earnings, thereby placing additional pressure on the EGP.
- **Capital Outflows**: The global market uncertainty often drives investors towards safe-haven assets, leading to capital outflows from riskier emerging markets like Egypt. This has diminished Egypt's foreign currency reserves and weakened its currency.
- **Inflationary Effects**: The devaluation of the EGP has increased the cost of imports, feeding into domestic inflation. This inflation undermines purchasing power and can destabilize the currency further.

However, counter to these pressures, Egypt witnessed a substantial increase in foreign direct investment. In the second quarter of 2024 alone, FDI inflows soared to a record $25.1 billion, underscoring growing investor confidence in Egypt's economic direction. This surge in foreign capital has not only enhanced Egypt's foreign exchange reserves but also supported the stability of the EGP.

Additionally, Egypt has initiated several strategic projects aimed at drawing foreign investment and stimulating economic growth. For instance, the Ras El Hikma project, valued at $35 billion, is anticipated to yield substantial economic benefits and create a multitude of job opportunities. These initiatives illustrate Egypt's proactive strategy to capitalize on global investment trends and enhance its economic standing.

For Egypt's policymakers and business leaders, effectively navigating the intricacies of US-China competition involves a multifaceted strategy. Diversifying trade partnerships, attracting investments from varied regions, and capitalizing on Egypt's strategic geographic positioning as a trade hub are essential for mitigating the risks tied to overdependence on any single country. Moreover, enhancing local industries and promoting innovation will reduce the dependency on imports, especially in critical sectors like technology and machinery, thereby fostering a more self-reliant and robust economic framework.

3. New Regionalism in the Context of Trade Wars and Disturbed Supply Chains

In recent years, the global economic environment has been profoundly influenced by the emergence of new regionalism, characterized by the formation of regional alliances and economic blocs aimed at bolstering cooperation and integration among member countries. This trend has accelerated as nations navigate the complexities introduced by trade wars and disrupted supply chains, notably due to the ongoing US-China trade conflict.

The escalating trade war between the United States and China, marked by increased tariffs and trade barriers, has catalyzed countries to seek alternative trade partnerships and strengthen regional alliances. The disruptions in global supply chains have underscored the urgency of regional cooperation to ensure stable and reliable sources of goods and services.

In this evolving landscape, the expansion of the BRICS bloc to include Egypt and the UAE signifies a strategic shift intended to recalibrate global power dynamics and lessen dependence on Western-dominated financial systems. This expansion fosters multilateral trade relationships and economic integration, aiming to mitigate the impacts of global trade disputes and supply chain disruptions, and positions these countries as significant actors in the global economy.

3.1. BRICS Expansion: An Attempt for a New Geopolitical Axis Amidst US-China Trade War

The inclusion of Egypt and the UAE in the BRICS bloc marks a deliberate recalibration of global power relations. This development, as articulated in recent BRICS Summit declarations, seeks to challenge the dominance of Western financial institutions and broaden the scope of multilateral economic partnerships, particularly against the backdrop of the US-China trade tensions.

For oil-rich nations like the UAE, BRICS provides a platform to diversify their economic interactions. By aligning with major economies such as China and India, these countries aim to attract more investments and decrease their reliance on the unpredictable

Western markets. This strategic alignment is increasingly pertinent as the US-China trade war intensifies, bringing about uncertainties in the global economic sphere.

Egypt's integration into BRICS aligns with its strategic goals to diversify its trade partnerships and secure substantial infrastructure investments. Notably, Egypt's trade with BRICS nations, which amounted to $9 billion annually, represented 30 percent of its total trade volume in recent years, a figure expected to rise as these partnerships deepen. For Egypt, this move is essential as it seeks to maintain a balanced economic stance amidst the ongoing US-China trade war.

Additionally, GCC countries like the UAE play a crucial role as primary energy suppliers to BRICS nations. This energy partnership gains further significance as global energy markets adjust to the repercussions of the US-China trade war.

Strategic autonomy is a significant motivator for Egypt as it endeavors to strengthen its global position and reduce dependence on Western aid and financial mechanisms. Membership in BRICS offers Egypt access to alternative financing avenues, lessening its susceptibility to the economic impacts of global trade disputes.

The discussions regarding BRICS expansion gained momentum following significant geopolitical events such as Russia's actions in Ukraine in 2022. The BRICS 2023 Summit Report highlighted the necessity for enhanced financial and economic integration among non-Western countries to mitigate the effects of Western sanctions on member states. Amidst substantial sanctions from Western nations, Russia has sought to deepen its economic and strategic relationships within the BRICS framework, using the bloc's expansion as a strategic countermeasure to Western dominance and providing an alternative economic model for countries wary of Western influence.

3.2. Trump & BRICS: Navigating the Trade War

In light of President Trump's anticipated efforts to disengage the US economy from China, his administration may confront the BRICS bloc more directly, especially concerning its initiative to introduce a unified currency aimed at diminishing the US dollar's hegemony. Trump has vocally opposed this BRICS proposal, perceiving it as a significant challenge to the dollar's status as the global reserve currency and to the overall financial stability of the US.

Trump's stance against the BRICS currency initiative underscores wider apprehensions regarding China's expanding role within the bloc. The US administration's strategy involves targeting financial systems associated with BRICS to safeguard American economic interests and to limit BRICS' potential as an alternative to the Western-centric economic order. In the context of Trump's second term, a greater focus on strengthening alliances in the Middle East is anticipated, positioning countries like Egypt as pivotal allies to counteract China's influence in the region.

Moreover, the Trump administration is expected to implement policies that could inhibit engagement with BRICS. Measures could include restrictions on transactions involving BRICS-backed currencies or sanctions on entities linked to BRICS. Such actions would complicate the diplomatic balancing act for countries like Egypt, which are deepening ties with BRICS while maintaining a longstanding alliance with the United States. This scenario would likely place Middle Eastern nations at the forefront of a global power dichotomy, compelling them to maneuver through a landscape marked by intensified economic and geopolitical polarization.

4. THE TRADE WAR AND SHIFTING GLOBAL DYNAMICS

"Ripple Effects of a Superpower Standoff"

4.1. Analyzing US-China Trade Relations

In 2023, US exports to China amounted to about $147.81 billion, a stark increase from $3.86 billion in 1985. However, imports from China totaled $427.2 billion, resulting in a substantial trade deficit of $279.4 billion, according to US Census Bureau and ITC **(US Census Bureau 2023)**.

The sectors most impacted by the trade war included technology, manufacturing, and agriculture. For the US, higher tariffs on Chinese imports increased production costs for industries reliant on Chinese components, such as electronics and machinery (Trade War Tracker, 2024). Conversely, China faced challenges in exporting agricultural products and industrial goods to the US market. These dynamics created ripple effects across the global economy, with non-participating countries experiencing both challenges and opportunities.

Figure 7. US Leading Export Partners (in USD

Figure 8. China's Leading Export Partners (in

billion)

billion yuan)

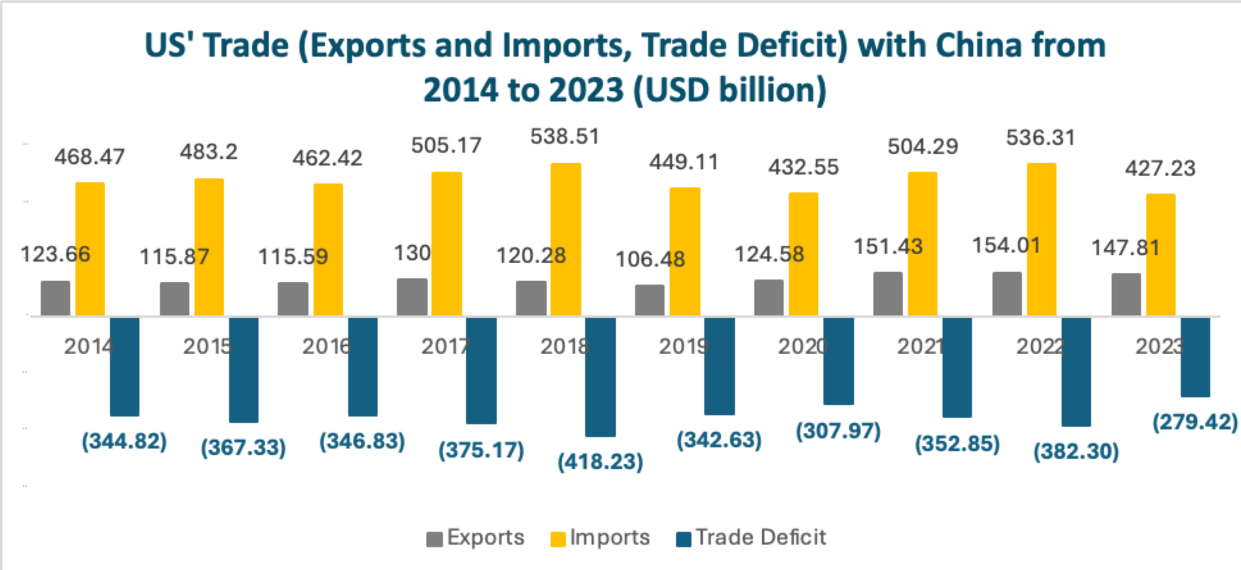
Sources: US Census Bureau, International Trade Center (ITC).

The US' top export partners include Canada, Mexico, and China. These countries dominate because of geographical proximity, existing trade agreements (like USMCA), and the interdependence of supply chains. Canada and Mexico alone account for a significant share of US exports, demonstrating the importance of North American trade relations. For business leaders, this reinforces the criticality of stable trade agreements and policies within the region (US Census Bureau 2023).

China's primary export destinations are ASEAN countries, the European Union, and the United States. The inclusion of ASEAN as the top partner reflects China's deepening trade ties within Asia and its regional economic integration efforts, such as the Regional Comprehensive Economic Partnership (RCEP) according to National Bureau of China (National Bureau of China 2023).

The heavy reliance on the US highlights the complex interdependence between the two economies, even amidst trade disputes. For policymakers, this underscores the need for diversification to mitigate risks from tariff escalations.

Figure 9. US Trade with China, 2014–2023



Sources: US Census Bureau, International Trade Center (ITC).

The US trade deficit with China remains significant, with imports consistently surpassing exports by large margins. In 2023, imports from China amounted to $427.2 billion, while exports were $147.81 billion, leading to a deficit of $279.42 billion. US exports to China have fluctuated, peaking at $154.01 billion in 2022 before slightly declining in 2023. These changes align with shifts in trade policy, demand fluctuations, and global economic conditions (ITC 2024).

On March 2, 2018, President Trump revealed new tariffs on steel and aluminum imports. A tariff of 25 percent was imposed on all imported steel, and aluminum faced a 10 percent tariff (Fouad 2024). The move aims to support the struggling U.S. steel industry, with the President emphasizing "free, fair and SMART TRADE!" in defense of his decision. While China is often blamed for undermining the US economy with cheap steel imports, it was actually the 11th largest steel exporter to the US in 2017. Instead, US allies like Canada, which was the top steel partner in 2017 with 5.7 million metric tons of steel imported, will be most affected by the tariffs. The new tariffs signal a potential trade war, with several key US partners facing significant impacts (Armstrong 2018).

For the US, the industries that are at risk with China are mainly transportation equipment, computers and electronics, agricultural products, chemicals, and machinery respectively (Armstrong 2016).

5. ASSESSING TRADE WARS: MECHANISMS AND MOTIVES

Trade wars have long been a significant feature of global economic history, often arising from protectionist measures. Examining historical trade wars offers valuable insights into their consequences on global trade, economies, and policy responses. Two notable examples—the Smoot-Hawley Tariff Act of 1930 and the US-Japan trade frictions of the 1980s—provide lessons for understanding the potential repercussions of the US-China trade war on Egypt's economy.

1. Smoot-Hawley Tariff Act (1930): A Catalyst for Global Economic Downturn (Irwin, 2011)

   The Smoot-Hawley Tariff Act, enacted by the United States in 1930, raised import duties on over 20,000 goods to protect American farmers and manufacturers during the onset of the Great Depression. While the intention was to safeguard domestic industries, the policy had devastating effects (Irwin 2011):

   - **Retaliation by Trading Partners:** Countries such as Canada, France, and the UK imposed retaliatory tariffs, reducing global trade by approximately 65 percent during the early 1930s.
   - **Global Economic Downturn:** The act exacerbated the Great Depression by curbing international trade, leading to widespread unemployment and stagnation across economies reliant on exports.
   - **Collapse of Exports:** US exports dropped by 61 percent from $5.2 billion in 1929 to $2 billion in 1933.

2. US-Japan Trade Frictions (1980s): Disruptions in Supply Chains (Baldwin 1984)

   During the 1980s, rising concerns over the US trade deficit with Japan, particularly in the automobile and electronics sectors, led to trade frictions. The US pressured Japan into voluntary export restraints (VERs) to limit Japanese car exports to the US. While this temporarily eased US domestic industry pressures, unintended consequences arose (Baldwin 1984):

   - **Disrupted Global Supply Chains:** Japanese firms relocated manufacturing operations to other countries, such as Thailand and Malaysia, to bypass restrictions, creating new global production hubs.

- **Higher Costs for Consumers:** The restrictions led to increased prices for automobiles in the US, disproportionately impacting middle-class consumers.
- **Trade Diversification by Japan:** Japan intensified efforts to diversify trade partners, reducing reliance on the US market over time.

Other trade wars, such as the Banana Trade War (1993-2012), the Steel Tariffs (2002), and the US-EU Trade Disputes (2018), illustrate how trade conflicts can disrupt industries, harm smaller economies, and lead to unintended economic consequences. For instance, the Banana Trade War disproportionately affected Latin American producers due to import quotas imposed by the EU and the US. Similarly, the US steel tariffs in 2002 benefited the US steel industry temporarily but resulted in broader economic costs and job losses in related sectors. The US-EU disputes in 2018, marked by tariffs on steel and aluminum, showed how tit-for-tat retaliatory measures disrupt industries and investor confidence. These examples underscore key lessons for smaller economies, such as Egypt, which must adopt policies to protect vulnerable sectors like agriculture and manufacturing while focusing on trade diversification and strengthening regional trade agreements to avoid over-reliance on major global economies.

Table 1. Lessons Learned from Historical Trade Wars (Summarizing Key Impacts and Insights from Major Trade Restrictions Like the Smoot-Hawley Tariff Act and US-Japan Trade Frictions)

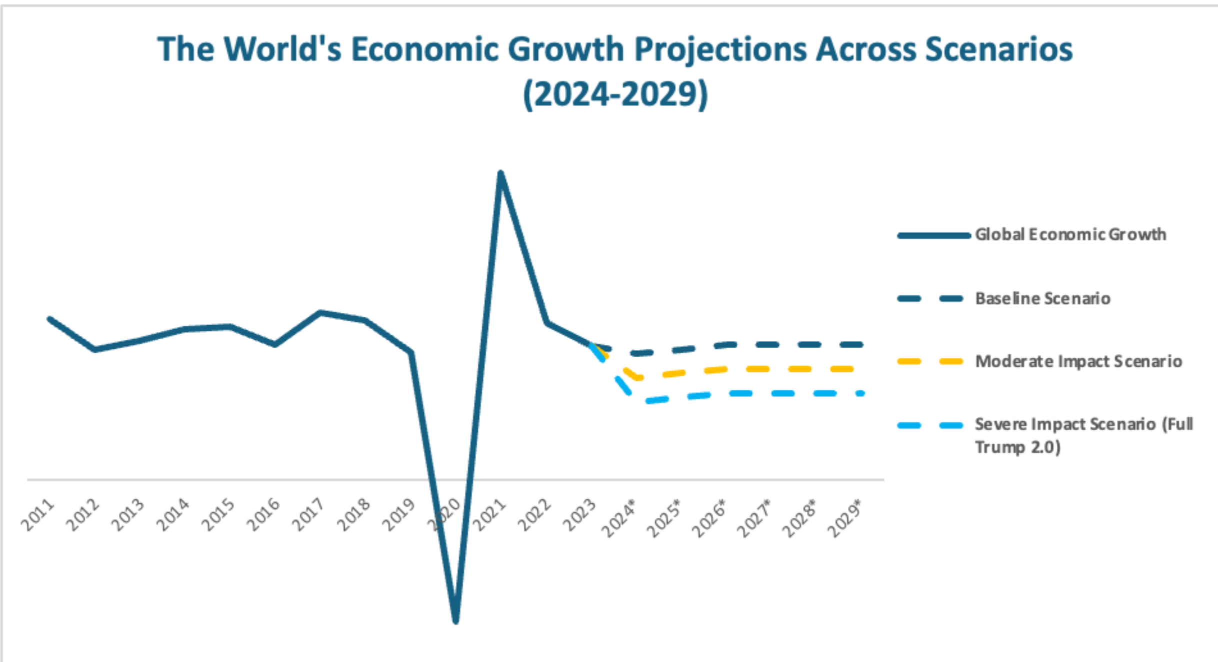
Trade Wars	Lessons Learned
Smoot-Hawley Tariff Act (1930)	Protectionist measures can lead to retaliatory policies, compounding global economic downturns and harming countries reliant on trade.
	Countries highly dependent on trade, like Egypt, are particularly vulnerable to global disruptions.
	Diversifying trade partners and export portfolios can mitigate risks from trade shocks.
US-Japan Trade Frictions (1980s)	Trade restrictions can shift global trade dynamics, disrupting supply chains and leading to unintended consequences, such as the relocation of manufacturing.
	Emerging markets, such as Egypt, could capitalize on these shifts by positioning themselves as alternative trade hubs.
	Protectionist policies often lead to higher consumer costs, highlighting the importance of balanced and flexible trade policies.
Banana Trade War	Smaller economies are disproportionately affected by trade disruptions,

(1993-2012)	especially those reliant on specific export markets.
Steel Tariffs (2002)	Short-term benefits can be overshadowed by long-term economic costs, including job losses in related industries and retaliatory measures.

Sources: Irwin (2011) and Baldwin (1984).

5.1. Navigating Uncertainty: Scenarios for the World and Bystander Countries

Figure 10. Global Economic Growth Projections across Scenarios, 2024–2029



Sources: Conducted by the authors, World Bank, Oxford Economics.

Note: Figures marked with an asterisk (*) are projections.

- **Baseline Scenario:** Globally, economic growth is projected to remain modest in the absence of a significant escalation in trade tensions. The global GDP is forecasted to grow at an average rate of 2.6–2.8 percent annually from 2024 to 2029, as economies gradually adapt to the "new normal" of trade disruptions. This moderate performance reflects ongoing recovery from the pandemic and a stable investment environment (WDI 2024).
- **Moderate Impact Scenario:** In the event of a moderate escalation of the trade war, global GDP growth could decline by approximately 0.5 percentage points annually starting in 2024. This would result in average growth rates closer to 2.1–2.3 percent during the same

period, driven by reduced trade flows, weaker investment activity, and constrained productivity growth (WDI 2024).

Imposing targeted tariffs on China, the EU, Mexico, and Canada is likely to reduce exports from these regions to the US in the affected sectors. However, the overall export volumes might be less impacted due to trade diversification and increased US demand driven by a significantly more relaxed fiscal policy. Nonetheless, the effects across various sectors could vary greatly, depending on the structure of the new tariff policy. (Oxford Economics 2024).

While extreme tariffs threatened during Trump’s campaign are not being considered, a moderate policy shift is expected, with the effective tariff rate rising by about 2 percentage points to 5 percent. This reflects targeted tariffs on certain sectors in China and, to a lesser degree, the EU, Mexico, and Canada. Notably, the overall increase masks the substantial impact on certain industries, such as autos and steel. For instance, fears of tariffs have already caused a 5 percent drop in European automakers' equity prices (Oxford Economics 2024).

The timing of these tariff increases is critical. Legislation to implement them could take up to 11 months, delaying adverse effects until 2026. Additionally, tariffs are expected to rise gradually, pushing the peak impact further into the future. In the medium term, US tariffs are likely to reduce total exports from targeted economies, with the most significant effects concentrated in specific sectors. However, diversification in trade flows could mitigate some of these losses, depending on the scope of the tariffs (Oxford Economics 2024).

Evidence from previous tariffs under Trump suggests the overall impact on exports might be limited, with China’s total exports potentially declining by just 0.5 percent in 2030 under targeted tariffs. However, broader retaliation or additional tariffs could exacerbate these effects and encourage policy shifts, such as intensified industrial strategies in China (Oxford Economics 2024).

In the short term, global trade might temporarily benefit from stronger US demand, as this positive effect will occur before the adverse effects of tariffs. Businesses may also increase orders ahead of tariff hikes, further boosting near-term trade activity. Over the long term, the election outcome may accelerate trends toward trade regionalization, increased protectionism, and heightened industrial policy worldwide—structural changes with profound but gradual economic impacts (WDI 2024).

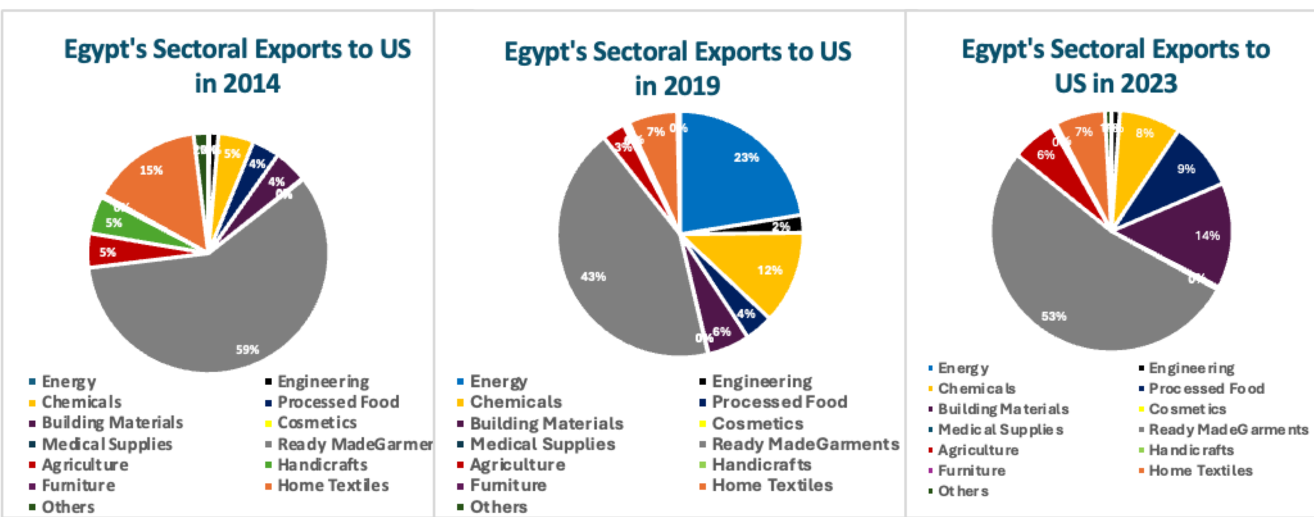
- Severe Impact Scenario: Full Trump 2.0: Under a severe escalation scenario, global economic growth could drop by 1.0 percentage points annually. Growth would stagnate at around 1.6–1.8 percent between 2024 and 2029, with advanced economies suffering from reduced demand and emerging markets facing capital flight and declining export revenues. The "Trump 2.0" scenario paints a picture of prolonged global economic distress (Oxford Economics 2024).

  While the "Trump 2.0" scenario paints a bleak picture of prolonged global economic distress, there are several factors that could mitigate these impacts. Economic diversification, regional trade agreements, effective monetary and fiscal policies, supply chain realignment, and the resilience of certain emerging markets all contribute to a more nuanced and potentially optimistic outlook for global economic growth.

6. EGYPT'S SECTORAL IMPACTS: INDUSTRIES ON THE FRONTLINE

"The Domino Effect: Sectoral Winners and Losers"

Figure 11. Egypt's Export Composition to US in 2014, 2019, 2023



Sources: International Trade Center (ITC).

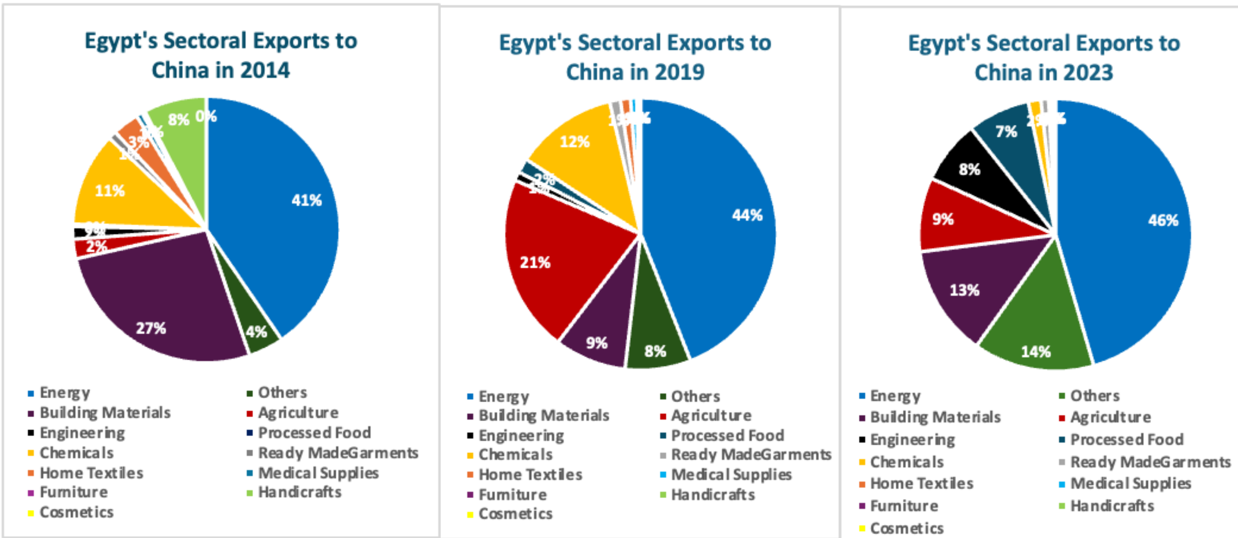
- Energy dominated Egypt's exports to the US in 2014, representing 59 percent, which decreased sharply to 43 percent in 2019 and further to 33 percent by 2023. This likely decline signals the US's reduced reliance on Egyptian energy exports, potentially due to its energy independence policies and increased shale production **(ITC 2024)**.

- Engineering exports grew from 4 percent in 2014 to 12 percent in 2019, peaking at 23 percent by 2023. This reflects Egypt's capability to meet US demand for machinery and industrial components, likely encouraged by trade diversification during the trade war. Processed food exports rose from 5 percent in 2014 to 12 percent in 2023, capitalizing on Egyptian competitiveness in food products (ITC 2024).

- Agricultural exports declined from 15 percent in 2014 to just 7 percent by 2023. This sharp drop may indicate stronger competition in the US market and limited Egyptian capacity to expand agricultural supply chains to meet stringent US standards. Soybean imports from the US rose due to China's reduced demand, benefiting Egyptian livestock farmers. Exports of citrus to China have dropped due to reduced demand. Rising costs of fertilizers and equipment have affected productivity (ITC 2024).

- Home textiles, ready-made garments, and chemicals showed slow but steady increases. These sectors could serve as anchors for Egypt's industrial policy aimed at boosting exports to developed markets like the US. Egypt's textile industry gained from increased US demand. Exports in these sectors rose by 18 percent in 2022. Garment exports to the US rose 8 percent, driven by demand for alternatives to Chinese imports (ITC 2024).

Figure 12. Egypt's Export Composition to China in 2014, 2019, 2023



Sources: International Trade Center (ITC).

Between 2017 and 2022, China's exports to Egypt grew significantly, recording an annualized growth rate of 10.7 percent and increasing from $10 billion to $16.7 billion. The key Chinese exports to Egypt in 2022 included broadcasting equipment, synthetic filament yarns, and woven fabrics, highlighting Egypt's reliance on Chinese industrial goods (OECD 2024).

In contrast, Egyptian exports to China reached $1 billion in 2022, with petroleum gas, refined petroleum, and crude petroleum comprising the majority of these exports. This suggests Egypt's continued dependency on raw material exports. Over the same period, Egypt's exports to China exhibited modest growth, rising from $845 million in 2017 to $1 billion in 2022, with an annualized growth rate of 3.45 percent. These trends reflect the contrasting trade dynamics between the two countries, with China's export portfolio to Egypt heavily dominated by manufactured goods, while Egypt's exports to China remain largely resource-based.

Energy products have consistently dominated Egypt's export composition to China. In 2014, energy exports constituted 41 percent of total exports, rising to 44 percent in 2019 and further to 46 percent in 2023. This increase reflects China's growing energy demands and Egypt's strategic focus on oil and gas exports, supported by the trade realignments induced by the US-China trade war (ITC 2024). Agricultural exports also showed positive trends, growing from 4 percent of Egypt's total exports to China in 2014 to 8 percent by 2019, maintaining this share through 2023. This growth was facilitated by bilateral agreements and market liberalization, allowing products like edible fruits, nuts, and citrus peel to contribute $77.82 million in export revenues in 2023 (Trading Economics 2025). However, exports of building materials declined from 27 percent in 2014 to 21 percent in 2019 and further to 13 percent in 2023, driven by reduced Chinese demand, rising import costs, and domestic challenges such as foreign currency shortages and oversupply in the cement market.

Smaller export categories, including medical supplies and handicrafts, accounted for only 2–3 percent of total exports. This underperformance underscores the need for strategic policies to promote high-value-added goods, such as high-tech products and unique Egyptian handicrafts, to enhance global competitiveness (ITC 2024). Meanwhile, the services sector benefited from rerouted global trade flows, increasing demand for logistics. However, mixed tourism dynamics saw a 12 percent decline in visitors from China, partially offset by a slight increase in US tourists, emphasizing the need for targeted strategies to revitalize tourism in the Chinese market.

Key Takeaways:

- Engineering and processed food sectors gained prominence, benefiting from the shift in US and Chinese import demands.
- Building materials and agriculture faced stagnation or decline, affected by heightened global competition and limited innovation.
- **Egypt's proactive trade agreements** with China and its access to preferential trade schemes with the US have helped mitigate some adverse effects of the trade war, leveraging its geographic location and industrial base.
- **Egypt's increasing energy exports** to China during the trade war highlight its strategic position as a reliable supplier amidst Chinese efforts to reduce dependence on US energy imports. However, this position was negatively impacted due to the natural gas and liquified natural gas (LNG) supply challenges from the Zohr gas field.

The US-China trade war further created significant opportunities for Egyptian exports, particularly in textiles, agriculture, and logistics. As China sought alternative suppliers, demand for Egyptian raw materials such as cotton increased. Simultaneously, processed food and chemical exports to the US experienced 22 percent growth, contributing to a 22.5 percent reduction in the annual trade deficit in these sectors. Egypt also capitalized on a potential $200 million increase in textile exports to the US and China. Exports to the US, valued at $2.5 billion annually, included textiles and agricultural products, benefiting from trade diversion. Chemicals recorded moderate annual growth of 2 percent, while reduced competition in the US market bolstered Egypt's processed food sector (ITC; Fajgelbaum et al. 2023).

Despite these opportunities, challenges emerged in Egypt's manufacturing sector due to rising import costs for machinery. Tariffs on Chinese goods led to a 20 percent surge in machinery costs, prompting Egypt to diversify its sourcing, with machinery imports from the EU increasing by 9 percent. However, supply chain disruptions hindered export-dependent sectors like electronics assembly, which require affordable and timely industrial inputs (Statista 2022). China's dominance in Egypt's imports, valued at $14 billion annually and consisting mainly of machinery, electronics, and industrial goods, further exacerbated manufacturing constraints. Exports to China, concentrated in petroleum and cotton, limited opportunities for higher-value trade (ITC 2024).

Globally, the US-China trade war disrupted trade flows, slowing global trade growth from 4.1 percent in 2017 to 2.8 percent in 2023, with an estimated 0.3 percent annual reduction in trade volume (WTO 2023). Southeast Asia emerged as a major beneficiary, attracting manufacturing investments that might have otherwise targeted African nations, including Egypt. This shift, coupled with global supply chain diversification, intensified competition for Egyptian exports in textiles and agriculture, underscoring the need for enhanced trade policies and improved industrial competitiveness.

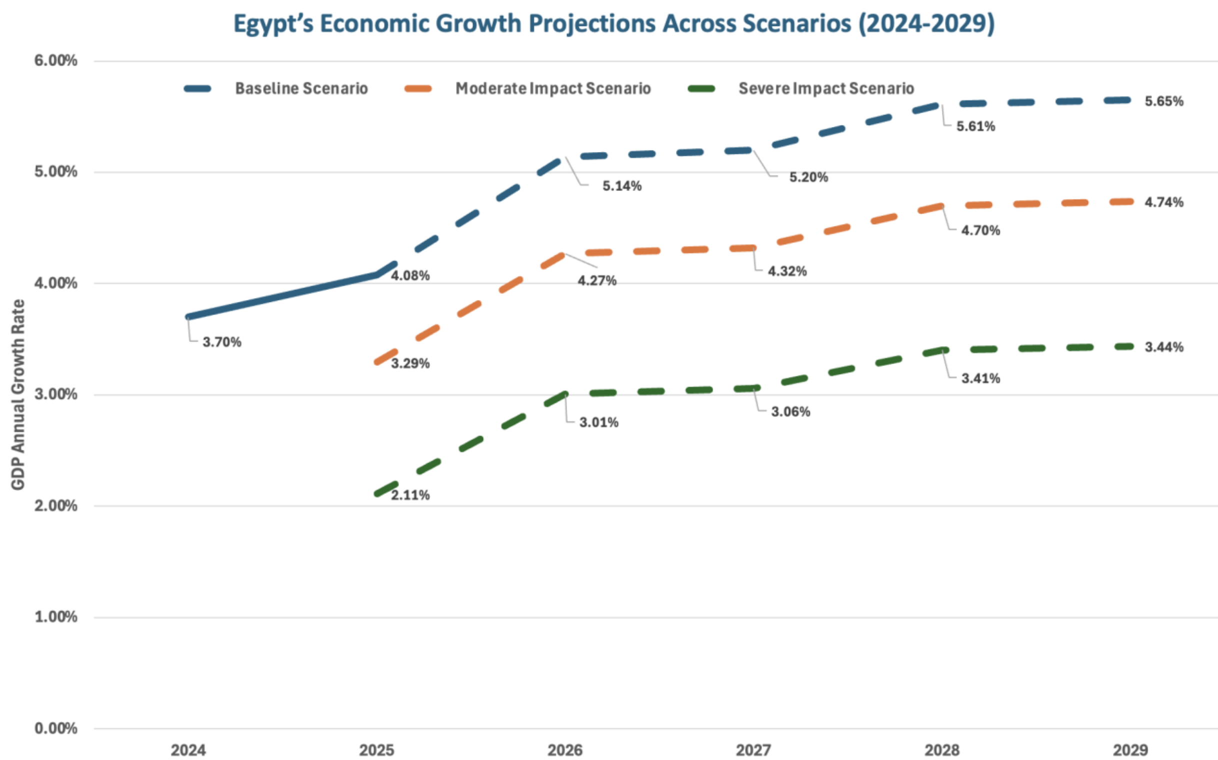
7. CHARTING THE PATH FORWARD: POLICY RECOMMENDATIONS

"Turning Challenges into Opportunities"

7.1. Unlocking Opportunities: Egypt's Strategic Leverage Points

While the global economy faces slowed growth and heightened uncertainty, bystander nations like Egypt are experiencing ripple effects that amplify their structural vulnerabilities. This analysis separates the global perspective from Egypt's specific situation, highlighting the interconnected nature of these economies while drawing comparisons and scenarios to illustrate Egypt's relative position (WDI 2024).

Figure 13. Egypt's Economic Growth Projections, 2024–2029



Sources: Conducted by the authors, World Bank, modeled to Analysis by Oxford Economics.

- **Baseline Scenario:** Under baseline conditions, Egypt's economy is projected to grow from 3.7 percent in 2024 to 5.65 percent by 2029. This trajectory assumes continued structural reforms, inflows of foreign direct investment (FDI), and improvements in key sectors like construction, energy, and tourism. However, Egypt's reliance on external trade and foreign capital leaves it vulnerable to shifts in the global economic environment (WDI 2024).
- **Moderate Impact Scenario:** In a moderately escalated trade war scenario, Egypt's growth would at least mirror global slowdowns but likely at a deeper level due to the bystander effect and structural challenges. With a deflator of 8 percent applied to global projections to replicate bystander effect observed on Egypt's exports in 2019, Egypt's GDP growth would decrease to 3.29 percent in 2025 and 4.74 percent by 2029. Key risks in this scenario include declining export revenues, slower FDI inflows, and tighter fiscal space (Oxford Economics 2024).

In this scenario, Egypt's limited industrial and technological capacity restricts its ability to absorb significant redirection of trade flows caused by the US-China trade war. While Egypt will benefit from the rerouting of some trade—particularly in textiles, agriculture, and via the Suez Canal—the overall impact on the Egyptian economy remains modest. With China and the US increasingly seeking alternative trading partners, there will be a slight rise in Egypt's exports to these two markets, especially in sectors like textiles, while Suez Canal revenues could increase due to redirected shipping lanes. However, the country's limited capacity to absorb displaced trade means the gains will not be transformational (WDI 2024).

Suez Canal revenues are expected to increase by around $500 million in 2025 due to the rerouting of trade, while textile exports may grow by 5-7 percent, contributing an additional $150-200 million in export revenues. However, Egypt will also face a rise in import costs—estimated at 10-15 percent—resulting in an additional burden of $700 million on the trade deficit (WDI 2024).

- **Severe Impact Scenario: Full Trump 2.0:** Under a severe escalation scenario, Egypt's growth trajectory would decline sharply. With the same 8 percent deflator applied to global projections, growth rates would drop to 2.11 percent in 2024 and struggle to recover, reaching only 3.44 percent by 2029. This deeper impact reflects Egypt's limited diversification, heavy reliance on global trade flows, and vulnerability to capital outflows during global financial instability (WDI 2024).

On the flip side, a scenario where the US-China trade war intensifies could lead to global economic disruptions, causing demand for Egyptian exports to fall sharply. The global slowdown triggered by escalating trade tensions would negatively affect Egypt's export markets, particularly in sectors like textiles and agriculture, where global demand is already volatile. The rising costs of imports, particularly raw materials and machinery, would further strain Egypt's manufacturing and industrial sectors, reducing domestic production and overall economic growth (Oxford Economics 2024).

A contraction in GDP growth rate by 1-2 percent as global economic conditions worsen could have further implications. Suez Canal revenues may stagnate, and the country's trade deficit is projected to widen by about $1 billion annually, primarily due to the higher costs of imports and declining export revenues. The negative balance of payments pressure would likely compound domestic financial challenges, resulting in weaker economic performance and increased fiscal strain on the government (SCA 2023).

7.2. "Optimistic Scenario: Transforming Challenges into Opportunities"

While achieving an optimistic scenario in the short term remains challenging, some economists, including Fajgelbaum, Goldberg, and their colleagues, have highlighted the potential for bystander countries to benefit from trade opportunities arising from the US-China tariff escalation. These benefits are not solely attributed to shifts in trade destinations but are also deeply influenced by country-specific factors such as infrastructure readiness and progressive trade policies (Fajgelbaum et al. 2023).

In this scenario, Egypt capitalizes on the opportunities presented by the US-China trade conflict by prioritizing investments in its manufacturing capabilities and upgrading infrastructure, particularly through the development of industrial zones. With global trade routes increasingly diverted through the Suez Canal and special economic zones, Egypt has the potential to establish itself as a cost-effective alternative to China and the US for multinational companies seeking competitive production hubs. This strategic positioning is further enhanced by initiatives aimed at improving trade facilitation, logistics efficiency, and the expansion of preferential trade agreements, thereby attracting higher inflows of foreign direct investment (FDI), particularly from Chinese firms seeking tariff-free production environments (WDI 2024).

The potential outcomes of such an optimistic scenario hold substantial implications for Egypt's economy. The enhanced global trade dynamics and the strategic redirection of trade routes could significantly boost key sectors. Specifically, the textile and agricultural sectors might see their exports doubling, potentially adding an estimated $500 million annually to Egypt's export revenues. Furthermore, the nation's robust industrialization initiatives will likely attract substantial foreign direct investment, with potential annual increases amounting to $2 billion. This influx of capital would not only bolster Egypt's manufacturing capabilities but also lay a robust foundation for sustained economic development. This scenario illustrates the transformative impact that strategic economic planning and infrastructural enhancements can have in leveraging global economic shifts to bolster national economic performance.

Although higher import costs due to the trade war pose challenges, the overall benefits from increased exports and robust FDI inflows are expected to outweigh these drawbacks. This highlights the importance of Egypt's strategic approach in leveraging its geographic and economic strengths to transform global trade disruptions into meaningful growth opportunities (SCA 2023).

7.3. MITIGATING RISKS: STRATEGIES FOR RESILIENCE

For Policy Makers:

- **For the short- and medium-term plans and recommendations**: Egypt's heavy reliance on imports from China and limited export integration into US markets increase its vulnerability to trade shocks. To mitigate these risks:
  - Expand and diversify export markets
  - Leverage regional agreements
  - Engage in multilateral forums
  - Foster Strategic Alliances
  - Foster public-private partnerships

- **On a longer-term plan**: Egypt's limited capacity to absorb displaced global trade flows underscores the need for industrial policy reforms, in addition to the inefficiencies in logistics and regulatory hurdles impacting Egypt's export competitiveness. Thus, it is suggested that policy makers:
  - Promote local manufacturing
  - Incentivize high-value sectors
  - Modernize customs processes
  - Upgrade infrastructure

For Businesses and Companies:

- Maintain strategic stockpiles of essential goods, including industrial inputs and raw materials
- Broaden and diversify suppliers
- Prioritize investment in R&D

- Foster public-private partnerships

By implementing these mitigation strategies, Egypt can transform its structural vulnerabilities into strategic advantages, positioning itself as a competitive and resilient player in a shifting global trade landscape. These actions will not only shield Egypt from the adverse effects of the US-China trade war but also unlock new avenues for sustainable economic growth. Integrating these recommendations into national policies will ensure long-term resilience and stability, enabling Egypt to thrive amidst global uncertainties.

7.4. Global Supply Chain Realignment: A Strategic Shift

In the current global economic climate, characterized by the ongoing US-China trade tensions and various other geopolitical challenges, there has been a significant reshaping of global supply chain strategies. Organizations worldwide are reassessing and recalibrating their supply chains to better manage risks and ensure operational continuity. This strategic shift encompasses several critical approaches:

- Supplier Diversification: In an effort to reduce dependency on specific nations or regions, companies are expanding their supplier networks. By procuring materials and components from a variety of geographical locations, they can mitigate the risks of disruptions due to geopolitical conflicts, natural calamities, or other unexpected events (Basu 2020).
- Nearshoring and Reshoring Initiatives: A growing number of firms are opting to relocate production processes closer to their primary markets or repatriate them back to their home countries. This shift not only cuts down on transportation costs but also bolsters supply chain transparency and swiftly adapts to market fluctuations. For instance, numerous US businesses are transitioning their manufacturing bases from China to nearer locations like Mexico or other countries in Latin America (Linton and Handfield 2020).
- Technological Investments: Embracing cutting-edge technologies such as automation, artificial intelligence, and blockchain is crucial for modernizing supply chains. These technologies enhance operational efficiency, bolster transparency, and improve risk management protocols. Blockchain technology, for example,

facilitates real-time tracking of shipments, enhancing accountability and minimizing fraud risks (Sheffi 2020).

- **Formation of Strategic Alliances:** Establishing robust partnerships with suppliers and logistics service providers is instrumental in forging resilient supply networks. These alliances, often structured as long-term contracts, joint ventures, or cooperative development projects, ensure supply chain stability and reliability (Alfaro and Chor 2020).
- Geopolitical Strategy: Nations that establish themselves as dependable alternatives within the global supply chain network can attract more investments and expand their trade capacities. Countries such as Vietnam, India, and Mexico have become favorable destinations for businesses diversifying their supply chains from China, offering competitive labor costs, advantageous trade pacts, and upgraded infrastructural capabilities (Qiu, Shin, and Zhang, 2020).

7.5. Benefits of Strategic Supply Chain Realignment:

- **Resilience:** By diversifying and strategically realigning, supply chains become more robust against disruptions, securing business continuity amidst geopolitical or other external challenges (Basu 2020).
- **Cost Effectiveness:** Optimizing supply network designs and minimizing reliance on remote suppliers can lead to significant cost reductions in transportation and logistics (Linton and Handfield 2020).
- **Market Agility:** Enhanced responsiveness to market demands through nearshoring and reshoring can improve customer satisfaction and strengthen market competitiveness (Sheffi 2020).
- **Risk Reduction:** Leveraging advanced technologies and strategic partnerships improves oversight and risk management, decreasing the potential for operational disruptions and losses (Alfaro and Chor 2020).

To sum up, the strategic realignment of global supply chains is a tactical response to the challenges introduced by the US-China trade dispute and broader geopolitical issues. By diversifying supplier bases, leveraging modern technologies, and nurturing strategic collaborations, companies are better positioned to develop resilient, efficient, and adaptive supply networks for long-term prosperity (Qiu, Shin, and Zhang 2020).

8. CONCLUSION

"Lessons from the Crossfire: Egypt's Role in a Changing Global Order"

International financial institutions like the World Bank and the International Monetary Fund (IMF) have often highlighted that countries like Egypt, with emerging economies and limited industrial diversification, face significant risks from global trade disruptions. According to a recent report by the IMF, economies that heavily rely on commodity exports or are heavily integrated into global supply chains are vulnerable to such trade disruptions (IMF 2024). ***In the case of Egypt, this means that while the Suez Canal and agricultural exports may offer some buffer, the country's heavy reliance on imports for industrial production places it at risk of inflationary pressures and higher costs.***

Furthermore, the World Bank has emphasized the importance of diversifying trade partnerships and focusing on enhancing domestic industries to mitigate these risks. ***In their latest Trade and Development Report, they suggest that by investing in infrastructure and manufacturing, countries like Egypt could potentially reap benefits from trade rerouting, but they must also address the challenges of increasing costs for key imports like machinery and raw materials.*** The World Bank further encourages Egypt to create a conducive environment for FDI to attract manufacturers looking to bypass tariff barriers.

In conclusion, Egypt stands at a crossroads, where its economic outcomes in the wake of the US-China trade war will largely depend on its ability to adapt quickly to shifting trade patterns and capitalize on its strategic advantages. The international community supports policies that foster trade diversification, infrastructure investment, and industrial growth, all of which could enable Egypt to weather the storm and emerge stronger in a reshaped global economy. However, failure to address the risks posed by rising import costs and potential export slowdowns could impede the country's development prospects in the medium term.

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