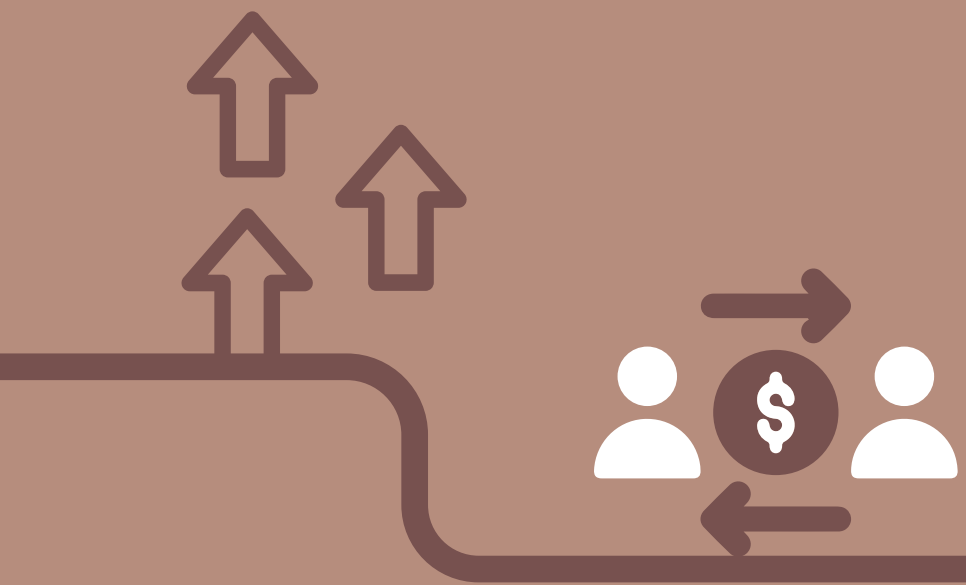
Trade as an engine for sustainable development and growth

by Chahir Zaki



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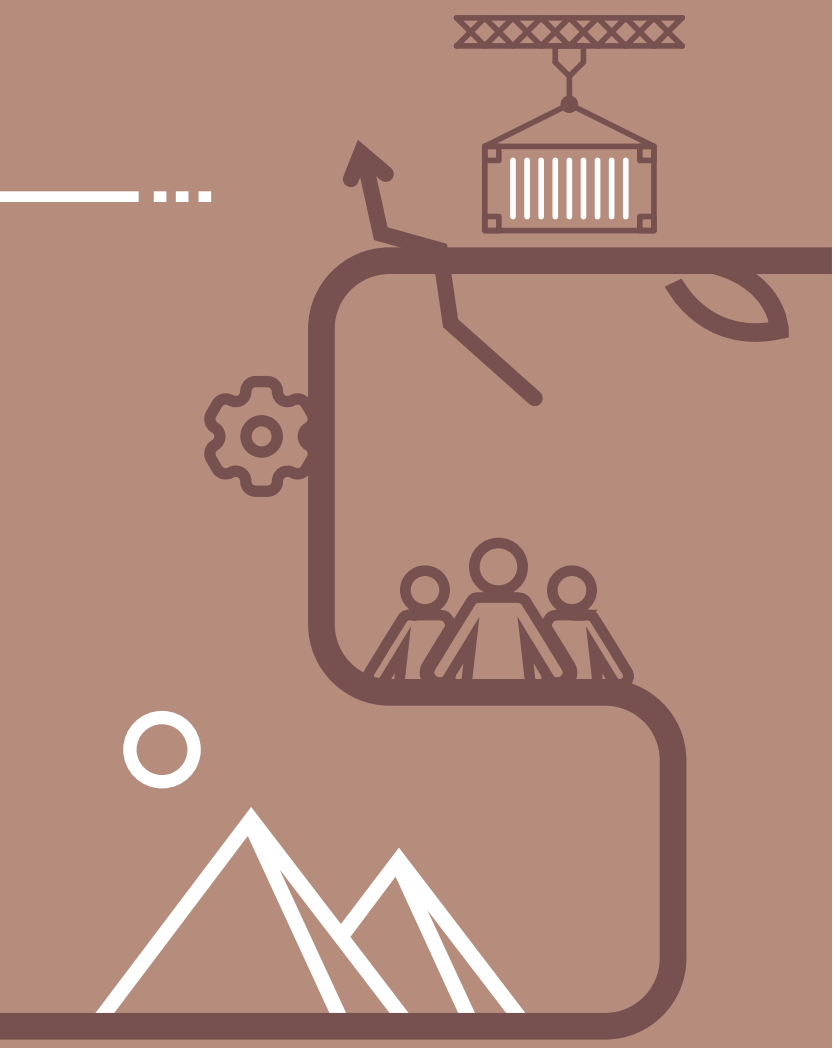
Trade can boost sustainable development through several channels.



Background

While trade openness plays an important role in boosting economic growth, it might not be sensitive to sustainable development. This may be the case if it negatively affects the environment, increases inequality or deteriorates labour conditions. The 2015 Addis Ababa Action Agenda is therefore aimed at increasing world trade in a manner consistent with the SDGs, including exports from developing countries, while committing to integrating sustainable development into trade policy at all levels; supporting the integration of small, vulnerable economies in regional and world markets; and recognizing the need for value addition by developing countries and for further integration of MSMEs into value chains.

Indeed, trade can boost sustainable development through several channels. First, in terms of gender equality, trade can create more opportunities that ensure women's full and effective participation in business and exports (Goal 5). Second, as exporting firms are the most productive firms, they will need to hire more skilled workers in order

to face the fierce competition of global markets. Such skilled workers are, in general, formally hired. For this reason, trade can be perceived as a tool that reduces informality, improves working conditions and provides workers with more decent jobs (SDG 8).[1] Moreover, increasing the number of SMEs in regional and global value chains can boost industry and innovation in emerging economies (SDG 9). Yet, it is important to note that multilateralism is threatened by the trade war between the United States and China, by the protectionist measures imposed by different countries to curb the COVID-19 pandemic and by the World Trade Organization (WTO) Appellate Body crisis. Deepening trade relations and saving the multilateral system can therefore empower partnerships for achieving the SDGs (SDG 17)..

This chapter examines how trade can be an engine not only for growth but also for sustainable development, including in the case of Egypt. It has two objectives. First, section B begins with an overview of trade flows and trade policies in Egypt. Second, section C explores the link between trade policy and several SDGs, namely gender equality, decent work, industry and innovation, reduced inequalities and partnerships for the SDGs. The main findings show that while Egypt is relatively more diversified than other comparator countries, it still specializes in traditional products. To mainstream the SDGs in trade policy, it is therefore necessary to upgrade exports, address non-tariff measures, link trade and industrial policies and deepen trade agreements. Section D concludes and provides a number of policy recommendations.

A. Overview of trade flows and trade policies in Egypt

The objective of this section is to show how both trade flows and policies in Egypt did not directly address development issues. Indeed, with an exports structure largely concentrated in capital intensive goods and trade agreements that focused primarily on tariff liberalization, the manufacturing sector did not succeed in creating many jobs (especially decent ones, which affected SDG 8) and instead produced traditional goods (affecting the country's ability to achieve SDG 9), which disconnected trade partnerships rather from development goals (affecting the ability to achieve SDG 17).

1. Developments in trade

(a) Long-term trends

Egypt has one of the more diversified economies in the MENA Region, along with Jordan, Morocco and Tunisia. In terms of its trade policy, it has implemented several reforms aimed at liberalizing trade and improving export performance. At the export level (figure 114), the country's share remained relatively stable between 2001 and 2019 at approximately 17.4 per cent, with a minimum of 10.3 per cent in 2016 and a maximum of 31 per cent in 2008. This share is lower than that of middle-

income countries (24.8 per cent) and the MENA Region as a whole (41.5 per cent in 2019, being a large exporter of oil and oil products). Figure 115 shows that the share of imports to GDP increased from 22.3 per cent to 25.7 per cent between 2001 and 2019, followed by a decline in 2020 to 20.7 per cent. It is important to note that these trends change when considering the trade balance of goods, as this has been always in deficit in Egypt, amounting to 10.45 per cent of GDP in 2018. By contrast, the trade balance of services generally registers a surplus, totalling 16.9 per cent of GDP in 2018. It is important to note that the export boom in the 2000s in Egypt, which declined sharply after the global financial crisis but bounced back after 2016, was more volatile than that of other MENA or middle-income countries whose exports followed a more gradual pattern.

A more detailed look at the structure of exports shows that Egypt is more diversified that the MENA Region since its share of fuel exports represents 33.7 per cent of merchandise exports on average. Nevertheless, this share remains higher than that of middle-income countries (20 per cent), as shown in figure 116. The share of manufactures exports amounts to 45.2 per cent of merchandise exports in Egypt, 22.5 per cent in the MENA Region and 66 per cent in middle-income countries (figure 117). This can partially explain why the exports structure of Egypt failed to create a significant number of jobs.

Figure 114. Exports of goods and services compared to gross domestic product, as a percentage

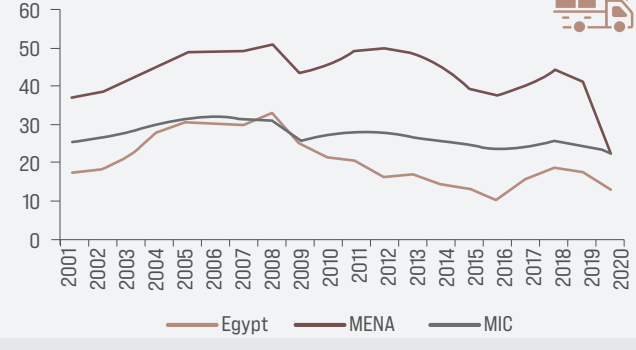
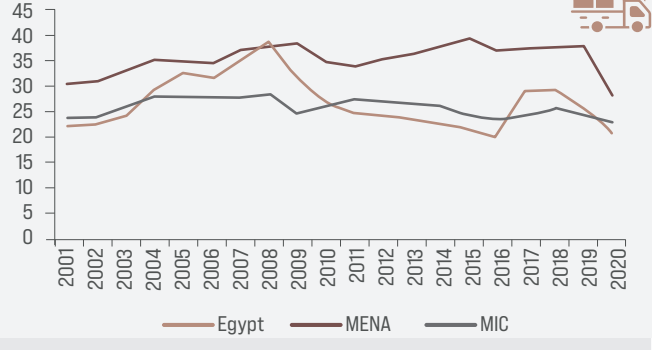


Figure 115. Imports of goods and services compared to gross domestic product, as a percentage



Source: Source: World Bank (2021). World Development Indicators database. Available from https://databank.worldbank.org/source/world-development-indicators. Accessed on 15 October 2021.

Abbreviations: MENA, Middle East and North Africa; MIC, middle-income countries.

Figure 116. Fuel exports, as a percentage of merchandise exports

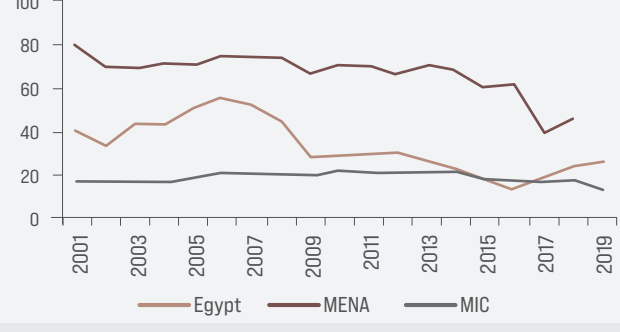
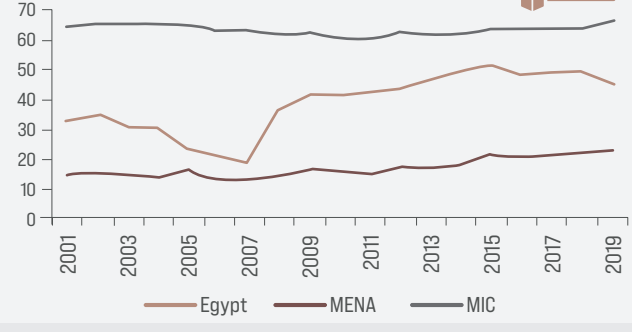


Figure 117. Manufactures exports, as a percentage of merchandise exports



Source: World Bank (2021). World Development Indicators database. Available from https://databank.worldbank.org/source/world-development-indicators. Accessed on 15 August 2021.

Abbreviations: MENA, Middle East and North Africa; MIC, middle-income countries.

However, this aggregate analysis hides a lot of heterogeneity. The next section therefore provides a more detailed analysis of the sectoral and geographical distribution of exports and imports.

(b) Where do exports go and where do imports come from?

The main trading partner of Egypt for both exports and imports is Europe (mainly the European Union, as well as some countries that are not member States), with 43 per cent of exports (figure 118) and 35 per cent of imports (figure 119) in 2019. Trade was primarily with France, Germany and Italy. Clearly, one of the potential reasons behind this significant share is the Association Agreement that has been in force since 2004.[2] The second most important destination for Egyptian products is Arab countries, primarily Saudi Arabia, with a share of 21.6 per cent in 2019. With regard to imports, Asia, chiefly China, is ranked second with a slightly increasing share (rising from 19 per cent in 2014 to 22 per cent in 2019).

This difference in the destinations of exports and the origins of imports shows that exports are more regionalized than imports, since they are concentrated in closer economies (Arab and European countries), compared to more remote countries for imports (Asian countries). It is clear that proximity to Europe can help Egypt to develop regional value chains similar to those between Germany and Eastern European countries. Indeed, in three key German industries (motor vehicles, chemicals and machinery) a production network had been developed with Eastern European countries, which has helped them to grow and gradually rise to the levels of Western Europe.

Figure 118. Geographical distribution of exports

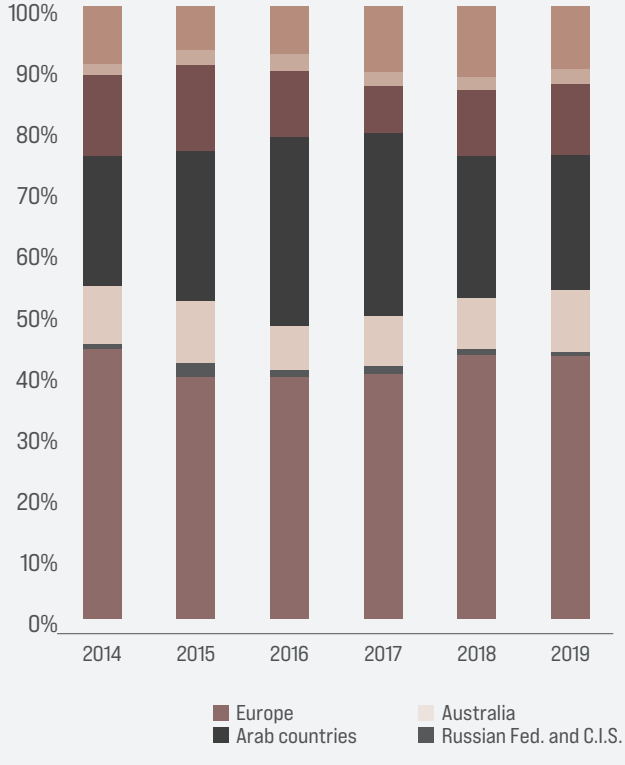
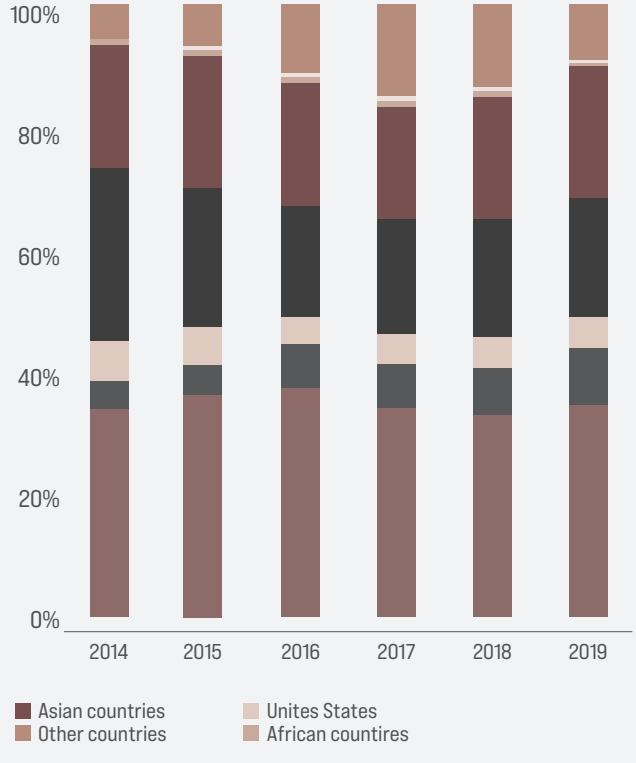


Figure 119. Geographical distribution of imports



Source: Author, based on data from the Central Bank of Egypt.

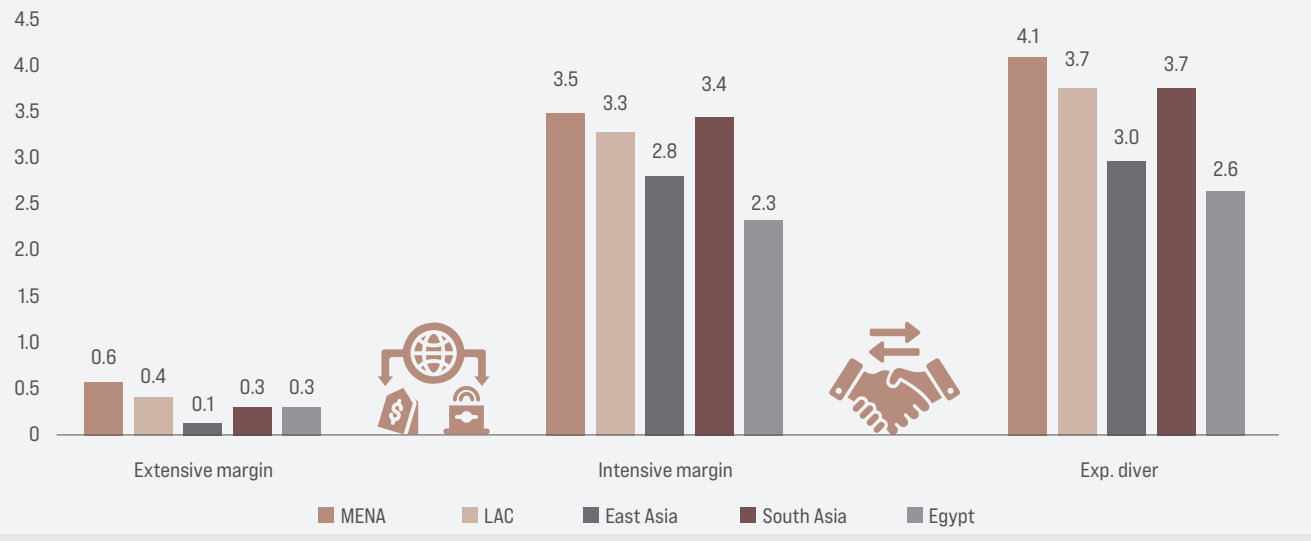
Abbreviations: CIS, Commonwealth of Independent States.

(c) What does Egypt export and import?

This section focuses on trade in goods only. Indeed, at the product level, the export structure of Egypt is more diversified than other emerging economies, as shown by the Theil index in figure 120. The higher the value of the index, the lower the diversification. This pattern holds for the intensive margin, which reflects the concentration in export volumes across active products. By contrast, for the extensive margin (which reflects the concentration in the number of products by country), East Asia appears to be more diversified.

Despite this diversification, Egypt remains specialized in traditional sectors that are not intensive in complex know-how. Indeed, figure 121 shows that, according to the Economic Complexity Index, despite a slight improvement, Egypt ranks below other comparator economies such as Jordan, Tunisia and Turkey.

Figure 120. Export Diversification Index (2014)

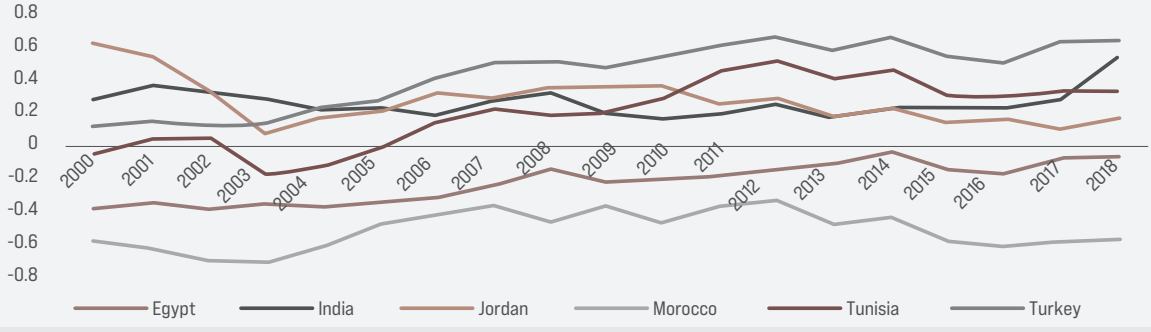


Source: Author, based on data from the International Monetary Fund Export Diversification Database. Available from https://data.imf.org/?sk=A093DF7D-E0B8-4913-80E0-A07CF90B44DB. Accessed on 15 August 2021.

Note: Export diversification is measured by the Theil index, which provides an overall measure of export diversification. It is formed of extensive and intensive margins of diversification. The extensive margin reflects the concentration of the number of products by country, while the intensive margin takes into account the concentration in the export volumes across active products. Higher values for all three indices indicate lower diversification.

Abbreviations: MENA, Middle East and North Africa; LAC, Latin America and the Caribbean.

Figure 121. Economic Complexity Index



Source: Author, based on the Atlas of Economic Complexity data set. Available from https://atlas.cid.harvard.edu/.

Note: A ranking of countries based on the diversity and complexity of their export basket. Countries with a great diversity of productive know-how, especially complex specialized know-how, can produce a great diversity of sophisticated products.

This is confirmed by the fact that Egyptian exports have a low share of high technology exports (1.1 per cent of manufactured exports) compared to all MENA countries (7.4 per cent) or middle-income countries (21.2 per cent). For this reason, a stronger link between industrial policies and trade policies will help to increase exports from the manufacturing sector.

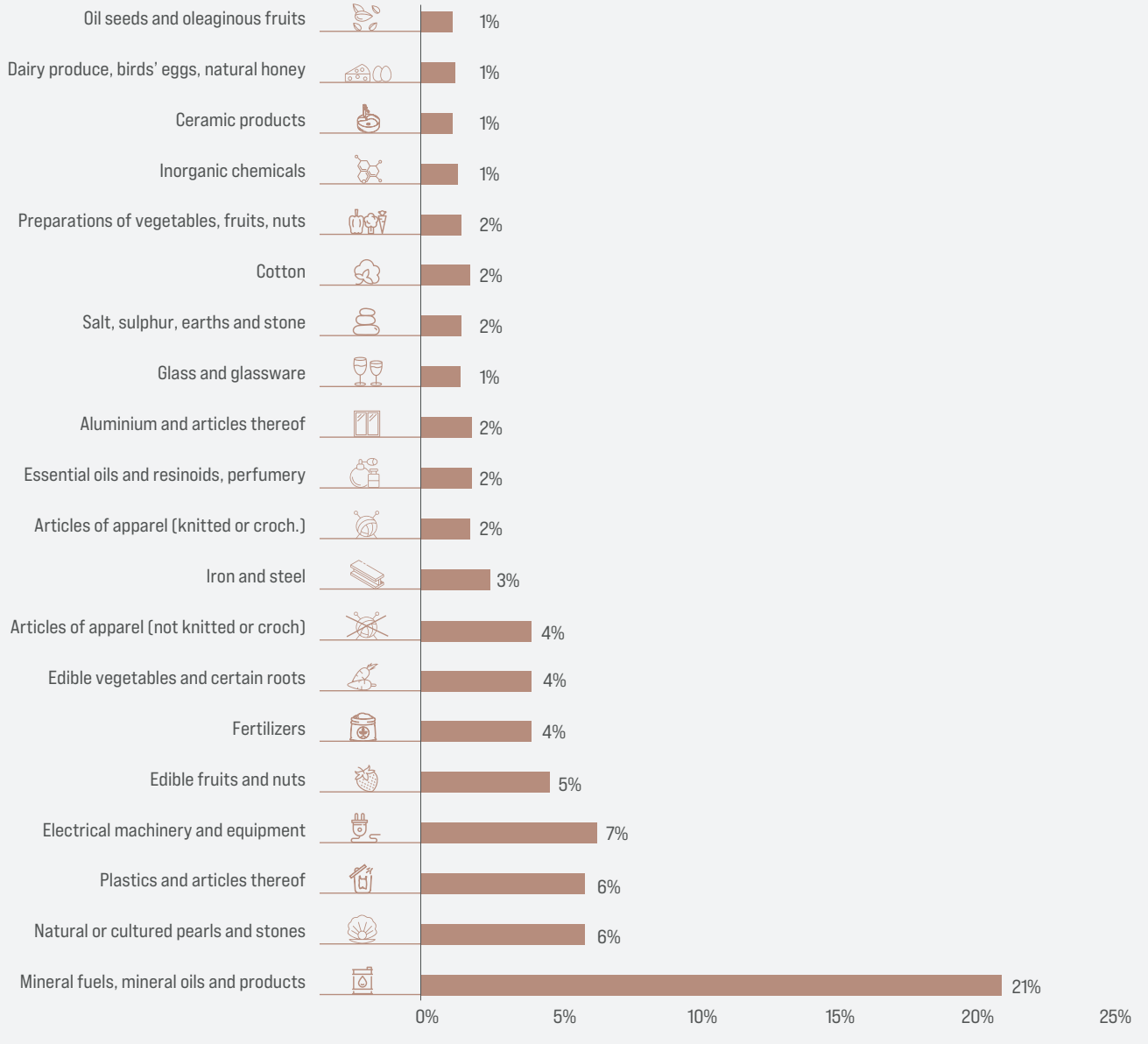
Fortunately, Egypt can easily diversify its exports to include new products that are more complex, based on the Economic Complexity Outlook Index, which measures how many complex products are near a country's current set of productive capabilities (figure 122). Since 2003, Egypt has added 62 new products that are incrementally more complex. As suggested by the Atlas of Economic Complexity data set, Egypt can follow the "light touch approach", as it is positioned to take advantage of many opportunities to diversify its production using its existing know-how. This is true mainly for parts of motor vehicles, cars and electrical and electronic products. Export diversification has three positive effects. First, it will help Egypt to overcome export instability that might negatively affect firms' decisions to invest. Second, it will lead to a stabilization of export earnings and thus reduce the country's external vulnerability. Third, knowledge spillovers can be generated from new production techniques that can impact other sectors.

Figure 122. Economic Complexity Outlook Index

Source: Author, based on the Atlas of Economic Complexity data set. Available from https://atlas.cid.harvard.edu/.

Notes: The x-axis measures the relative complexity of products and the y-axis measures the ease of diversification for a country. Parsimonious industrial policy approach: limited opportunities require bottlenecks to be addressed to help overcome short distances to related products. Strategic bets approach: few nearby opportunities call for coordinated long jumps into strategic areas with future diversification potential. Technological frontier approach: having exploited virtually all major existing products, gains come from developing new products. Light touch approach: ample space to diversify calls for leveraging existing successes to enter more complex production. The higher the value of the index, the more complex the exports. Negative values show either a low level of complexity or a low ability to diversify.

Figure 123. Top 20 exported products, HS2 level



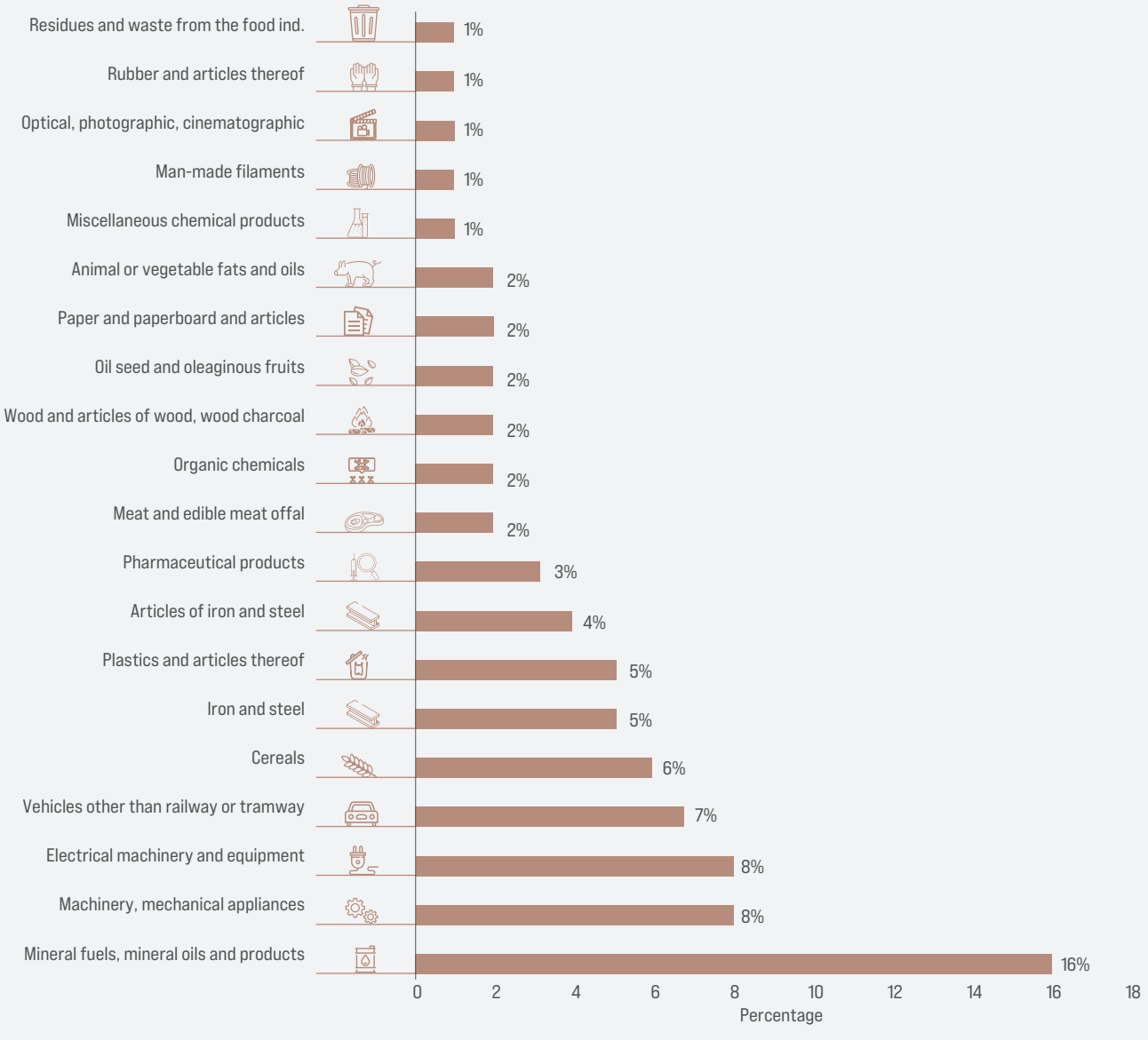
Source: Author, based on the International Trade Centre data set.

Note: Figures are averages from the period 2014–2019.

At a more detailed level (HS2),[3] figures 123 and 125 show that minerals represent a significant share of exports and imports (21 per cent and 16 per cent, respectively). For exports, plastics (6 per cent), electrical machinery (7 per cent), edible fruits (5 per cent), fertilizers (4 per cent) and items of clothing (6 per cent, crocheted or non-crocheted) represent the most exported products. As for imports, machinery and mechanical appliances (8 per cent), electrical machinery (8 per cent), vehicles (7 per cent) and cereals (6 per cent) are among the most imported products. This structure shows the extent to which the country's imports are chiefly capital goods of high added value, while exports have a lower added value, which affects job creation.

Clearly, to make exports more competitive, several reforms must be implemented at both the industrial and trade policy levels, as will be shown in section D.

Figure 124 Top 20 imported products, HS2 level



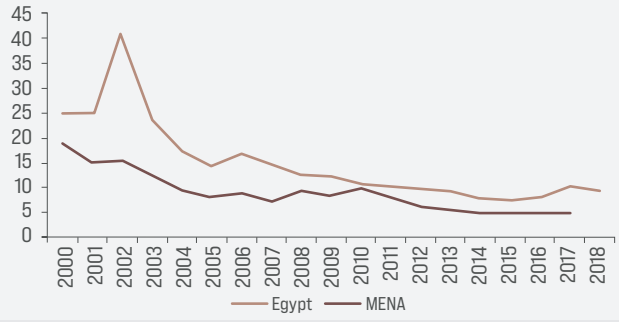
Source: Author, based on the International Trade Centre data set.

Note: Figures are averages for the period 2014–2019.

2. Developments in trade policy

The analysis of tariffs and non-tariff measures is of particular interest when examining the competitiveness of Egyptian exports. First, in terms of tariffs, exports rely significantly on imported inputs. Indeed, according to data from CBE, 70 per cent of the country's imports are concentrated in raw materials, capital goods and unfinished goods. Tariffs on imports are therefore likely to affect the competitiveness of exports. As for non-tariff measures, it is important to note that Egyptian exporters do not only face such measures in the destination markets, but in Egypt as well. More efforts are therefore needed to reduce the negative effects of such barriers.

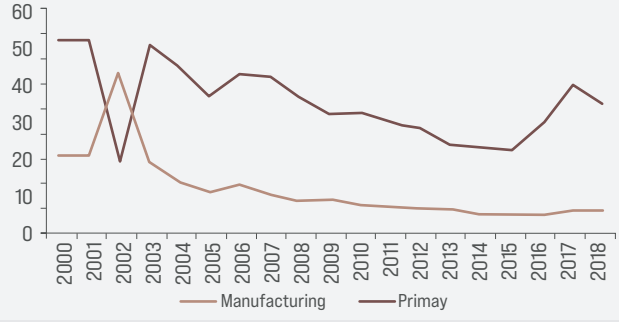
Figure 125. Evolution of tariffs for all products



Source: World Bank (2021). World Development Indicators database. Available from https://databank.worldbank.org/source/world-development-indicators. Accessed on 15 August 2021.

Note: Figures represent the tariff rate, applied, simple mean, for all products (as a percentage).

Figure 126. Evolution of tariffs by product for Egypt



Source: World Bank (2021). World Development Indicators database. Available from https://databank.worldbank.org/source/world-development-indicators. Accessed on 15 August 2021.

Note: Figures represent the tariff rate, applied, simple mean (as a percentage).

(a) Tariffs

Over the last two decades, Egypt has significantly liberalized its trade; the average tariff declined from 25 per cent in 2000 to 9.6 per cent in 2018. Nevertheless, this level remained higher than the average in the MENA Region, which reached 5.1 per cent in 2018 (figure 125). At the sectoral level, the manufacturing sector underwent a more pronounced liberalization, as its average tariffs declined from 21.6 per cent to 6.6 per cent over the same period. Conversely, the primary sector remained much more protected, with an average tariff of 35 per cent as at 2018 (figure 126).

Despite these developments, and while the literature has shown that tariffs have a negative impact on the economy through their effect on consumers (i.e. higher prices) and on producers (i.e. more costly imported intermediate inputs), non-tariff measures seem to be more harmful, as they are less transparent and, in some cases, more exorbitant.

(b) Non-tariff measures

According to UNCTAD, non-tariff measures are generally defined as policy measures other than ordinary customs tariffs that can potentially have an economic impact on international trade in goods, changing quantities traded, or prices or both. Whereas the development of multilateral trade negotiations led to the reduction of tariff barriers, the use of non-tariff measures as an instrument for trade regulation and consumer safety protection has increased in recent decades.

Table 28 confirms that non-tariff measures are generally more protective. Indeed, the average ad-valorem equivalent of both technical (those related to sanitary and phytosanitary measures and technical barriers to trade) and non-technical measures (other non-tariff measures) is 18.2 per cent for imports to Egypt. The products that experience a high ad-valorem equivalent of non-tariff measures are processed rice, vegetable oil and fats, fishing, dairy products, beverages and mineral products. These non-tariff measures chiefly include sanitary and phytosanitary measures that aim to protect human or animal life from risks related to additives, contaminants, toxins or disease-causing organisms. Technical barriers to trade, meanwhile, deal with standards, mandatory technical regulations and the procedures such as testing or certification that ensure that a certain product meets the quality requirements of the importing country. As a result, improving the quality of exported products will help to avoid such measures in the main destination markets, especially the European Union and Arab countries.

Table 28. Ad-valorem equivalents of non-tariff measures

Product	Tech. (percentage)	Non-tech. (percentage)	Product	Tech. (percentage)	Non-tech. (percentage)
Beverages and tobacco products	19.7	6.5	Machinery and equipment n.e.c.	1.6	1.4
Bovine meat products	0.0	0.0	Manufacturing n.e.c.	4.9	12.7
Animal products n.e.c.	2.4	4.2	Minerals n.e.c.	0.6	0.8
Crops n.e.c.	8.2	1.3	Chemical, rubber, plastic products	1.2	2.0
Food products n.e.c.	58.1	2.6	Electronic equipment	0.9	0.9
Meat products n.e.c.	9.8	5.0	Metal products	3.2	1.1
Processed rice	159.9	51.1	Paper products, publishing	0.5	0.5
Plant-based fibres	0.4	0.0	Petroleum, coal products	1.0	5.6
Vegetable oils and fats	44.8	5.6	Textiles	1.0	0.4
Vegetables, fruit, nuts	3.3	1.5	Ferrous metals	0.3	0.2
Sugar	2.1	0.0	Leather products	4.5	2.1
Forestry	2.5	1.1	Wood products	1.8	0.6
Fishing	18.3	1.8	Motor vehicles and parts	2.5	3.0
Cereal grains n.e.c.	0.0	0.2	Metals n.e.c.	0.3	0.1
Dairy products	9.4	2.6	Mineral products n.e.c.	6.5	48.4
			Clothing	6.5	5.2

Source: Author, based on data from the United Nations Conference on Trade and Development.

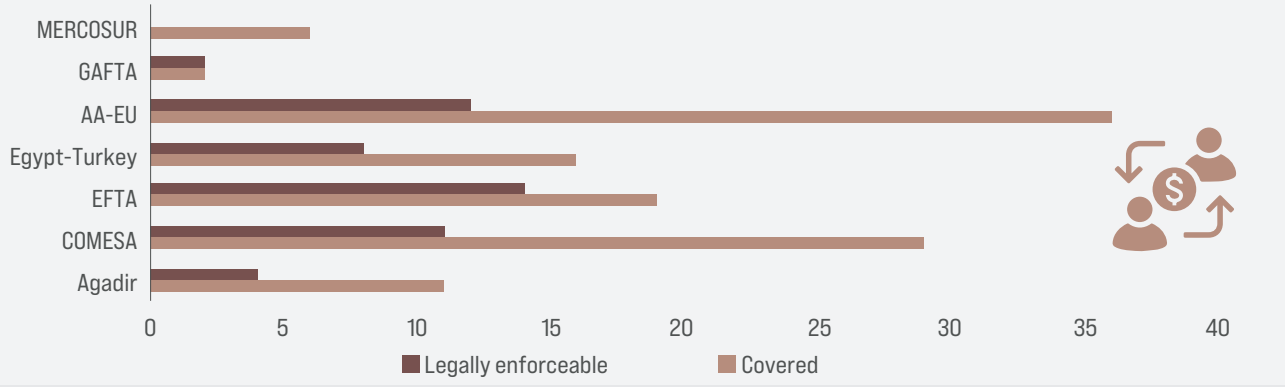
Note: The ad-valorem equivalent of technical measures captures the effects of these measures: Chapter A – Sanitary and phytosanitary measures: requirements restricting the use of specific substances, hygienic requirements or other measures for preventing the dissemination of diseases, as well as conformity assessment measures related to food safety, such as certification, testing and inspection, and quarantine. Chapter B – Technical measures: labelling requirements and conformity assessment measures relating to technical product requirements, including certification, testing and inspection. The ad-valorem equivalent of non-technical measures captures the effects of these measures: Chapter D – Contingent trade measures: measures to counteract the adverse effects of imports, including anti-dumping, countervailing and safeguarding measures. Chapter E – Quantitative restrictions: licensing requirements, quotas and other quantity control measures, import prohibitions that are not related to sanitary and phytosanitary measures or technical barriers to trade. Chapter F – Price controls: measures to control or affect the prices of imported goods to support or stabilize the domestic price of competing products or raise tax revenue. Includes para-tariff measures. Chapter G – Finance measures: policies restricting payments for imports, including regulation of access and cost of foreign exchange and terms of payment see https://unctad.org/system/files/official-document/ditctab2019d5_en.pdf..

Abbreviations: n.e.c., not elsewhere classified.

(c) Trade agreements

Along with tariffs and non-tariff measures, trade agreements explain why trade and competitiveness in Egypt has not really improved over time. In fact, the country has signed several trade agreements. While shallow agreements deal only with tariff reduction (i.e. trade liberalization), deep ones address issues such as non-tariff measures, mobility of persons, capital mobility and trade in services. It is worth noting that the majority of trade agreements of Egypt at both the bilateral and regional levels are rather shallow.[4] They have therefore led to more liberalization but without any real integration into the global economy. Figure 127 confirms this by comparing the number of policy areas in the agreements to the number of those that are legally enforceable. There are two comments to be made here. First, the number of legally enforceable areas is

Figure 127. Policy areas included in free trade agreements of Egypt



Source: Author, based on the World Bank Deep Trade Agreements database 1.0.

Abbreviations: MERCOSUR, Common Market of the South; GAFTA, Greater Arab Free Trade Area; AA-EU, European Union Association Agreement; EFTA, European Free Trade Association; COMESA, Common Market for Eastern and Southern Africa.

generally lower than the number of policy areas covered, which reduces the efficiency and the depth of the agreements. Second, most of these legally enforceable articles deal mainly with tariff reduction. As a result, other crucial issues (namely service restrictions and non-tariff measures) are not among these articles, causing most of these agreements to have a limited effect.[5]

At the bilateral level, Egypt has concluded free trade agreements with the European Union (2004), the members of the European Free Trade Association (Iceland, Liechtenstein, Norway and Switzerland, 2004), Turkey and other Arab countries. At the regional level, Egypt has acceded to the Greater Arab Free Trade Area, the Common Market for Eastern and Southern Africa and the Agadir Free Trade Agreement (with Jordan, Morocco and Tunisia). Egypt also has a full-fledged agreement that came into force in 2017 with countries in the Common Market of the South. Finally, Egypt signed the Qualifying Industrial Zones protocol in December 2005. Egypt also ratified the Agreement establishing the African Continental Free Trade Area.[6] While trade agreements that address tariff removal are necessary to increase trade, they are insufficient in view of the need for greater focus on non-tariff measures and service provision.

Against this background, it is important to note that two issues must be prioritized. First, trade policy must take into consideration industrial priorities in order to make exported products more competitive in world markets. Second, investment treaties that encourage foreign direct investment in the manufacturing sector will help to develop regional value chains and upgrade exports.[7]

B. Promoting trade consistent with the Sustainable Development Goals

It is important to examine how trade policy can be used as a tool to achieve the SDGs. In other words, reforming trade policy can also have developmental goals. This section will chiefly focus on SDGs 5, 8, 9, 10 and 17.

Table 29. Ranking of variables according to the 2020 Doing Business report

	Morocco	Jordan	Tunisia	Egypt
Global rank	53	75	78	114
Rank within group	3	6	8	12
Starting a business	5	11	2	9
Dealing with construction permits	3	15	6	11
Getting electricity	3	8	6	11
Registering property	9	8	12	16
Getting credit	9	1	7	4
Protecting minority investors	3	12	8	7
Paying taxes	5	8	12	19
Trading across borders	3	5	8	16
Enforcing contracts	5	10	8	20
Resolving insolvency	4	9	3	8

Source: World Bank (2021). Doing Business data. Available from https://www.doingbusiness.org/en/data. Accessed on 1 August 2021.

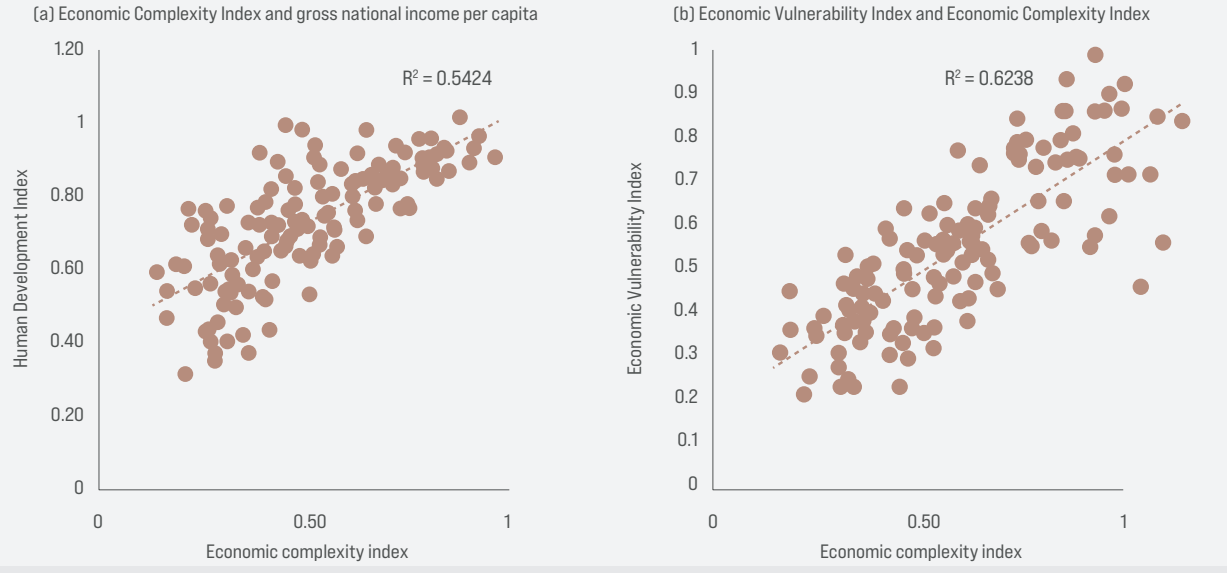
1. SDG 9: Link between trade and industry

As has been argued by Karam and Zaki, upgrading exports requires efficient economic institutions measured by quicker procedures, protection of investors' rights and more.[8] In addition, promoting the insertion of firms into global value chains requires an enabling domestic environment. Table 29 shows that, according to the Doing Business data set, Egypt ranks below its comparator economies (Jordan, Morocco and Tunisia), especially in terms of property rights, paying taxes, enforcing contracts and trading across borders. Attracting more foreign direct investment associated to technology transfer in the manufacturing sector will therefore clearly require better institutions. This will help to develop regional or global value chains, reform the industrial sector, integrate SMEs into global markets and achieve SDG 9, which is aimed at building resilient infrastructure, promoting sustainable industrialization and fostering innovation.

Integration into regional or global value chains will help Egypt to diversify and increase the complexity of its exports. As has been shown, Egypt can adopt a light touch approach by building on its current know-how. Integration into a regional or global value chain will help to accelerate this trend if more foreign direct investment is channelled into the non-oil manufacturing sector. Exports that are more complex will lead to higher economic growth and lower economic inequality. Indeed, economies with more knowledge-intensive production structures are more inclusive (figure 128 (a)). In the same vein, Abou Ismail and Ishak (2021) show that more economic complexity is associated with less vulnerability, as measured by the Economic Vulnerability Index, which measures the dependency of a country on three volatile sources of income: commodity exports, tourism and agriculture.[9] Economies with higher levels of complexity are more resilient to external shocks (figure 128 (b)).

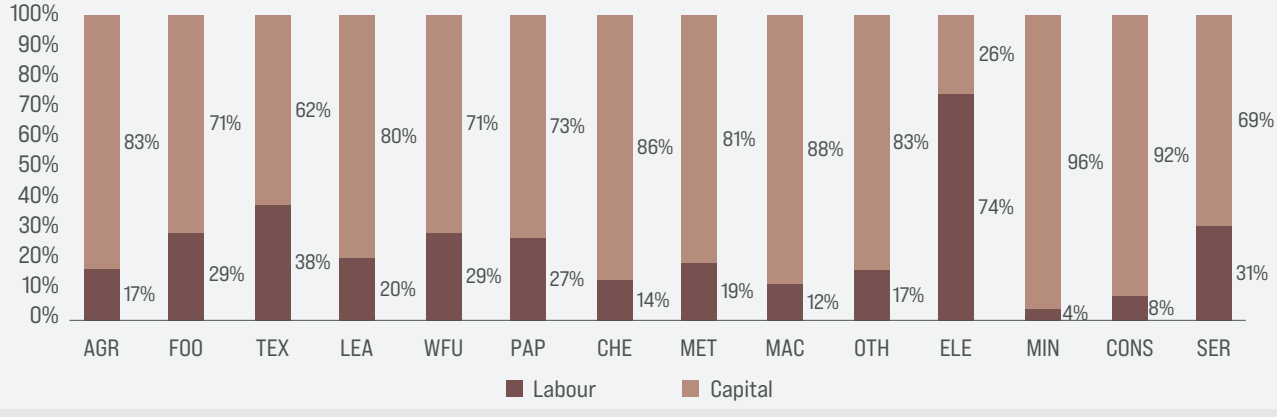
Among the recent initiatives that link trade to industry, it is important to mention the structural adjustment programme launched by the Ministry of Planning and Economic Development in April 2021. It enhances the efficiency of the labour market and technical and vocational education and training. Moreover, it identified several dimensions required to develop the institutional framework to promote exports and the role of the private sector. More specifically, it targets the creation of a supportive and enabling environment for competition, facilitating and developing trade by removing obstacles and upgrading the transport and logistics sectors.

Figure 128. Economic Complexity Index and growth outcomes



Source: Author, based on data on the Economic Complexity Index from the Growth Lab at Harvard University, data on gross national income per capita from the World Development Indicators and data on the Economic Vulnerability Index from Abou Ismail and Ishak (2021).

Figure 129. Capital and labour intensity by sector



Source: Author, based on the social accounting matrix of 2014/15.

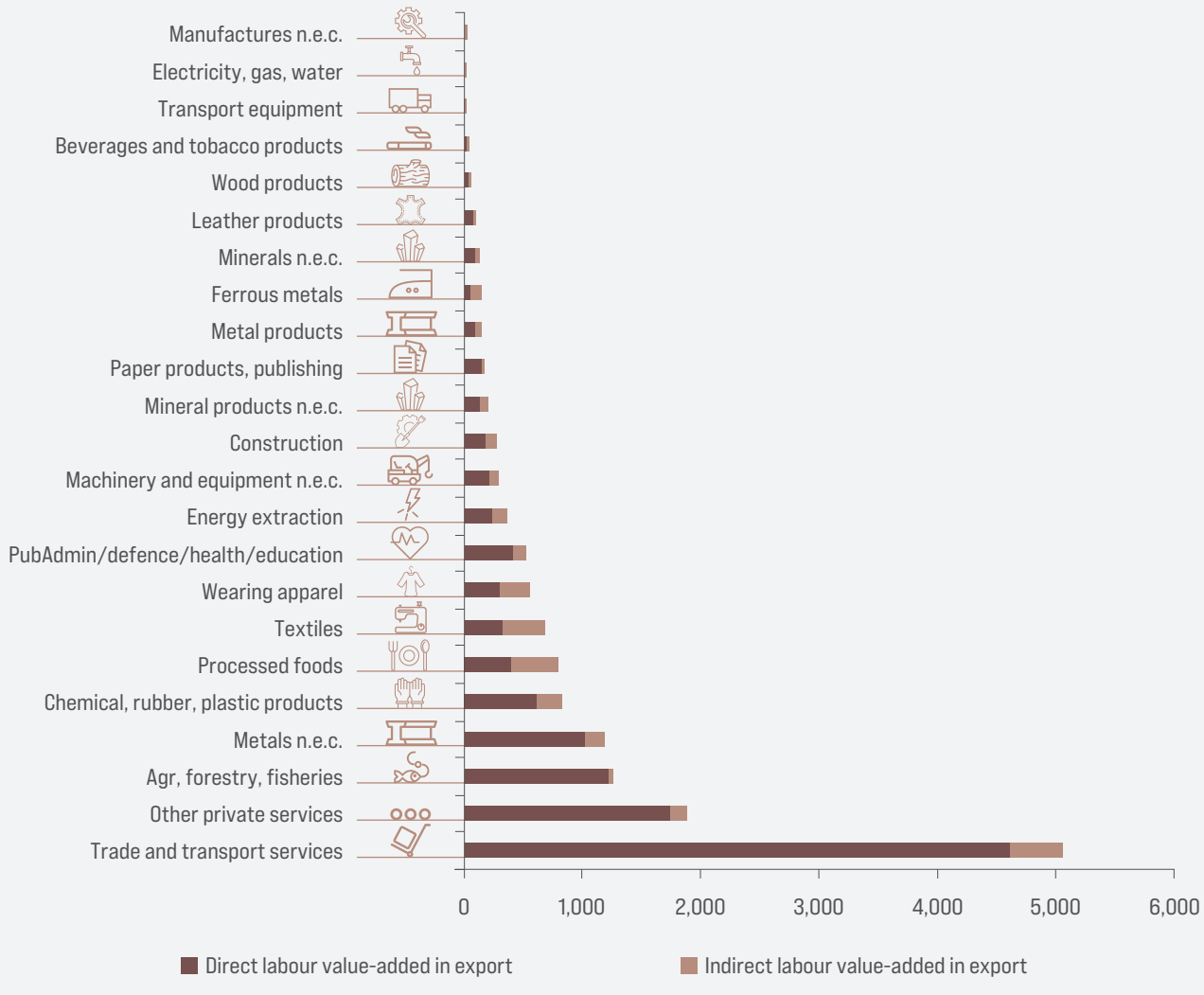
Abbreviations: AGR, agriculture; FOO, food and beverages; TEX, textile; LEA, leather; WFU, wood and furniture; PAP, paper; CHE, chemical; MET, basic metals; MAC, machinery; OTH, other manufacturing; ELE, electricity; MIN, mining; CONS, construction; SER, services (including transports and Suez Canal).

2. SDG 8: Link between trade and labour demand

Trade can also become an effective policy that creates jobs; however, since most of the sectors in which Egypt has a comparative advantage are capital intensive (especially textiles, chemicals, agriculture and processed food, as shown in figure 129), increases in exports did not lead to lower unemployment.

This is also confirmed by figure 130, which shows that the labour value added is generally low, whether it is direct or indirect, with mainly services that are labour intensive (particularly transport and trade services that include the Suez Canal, and other private services in financial services, tourism and telecommunications). This again corroborates the fact that the manufacturing sector is more capital intensive and must be reformed in order to boost employment.

Figure 130. Value added to exports by direct and indirect labour



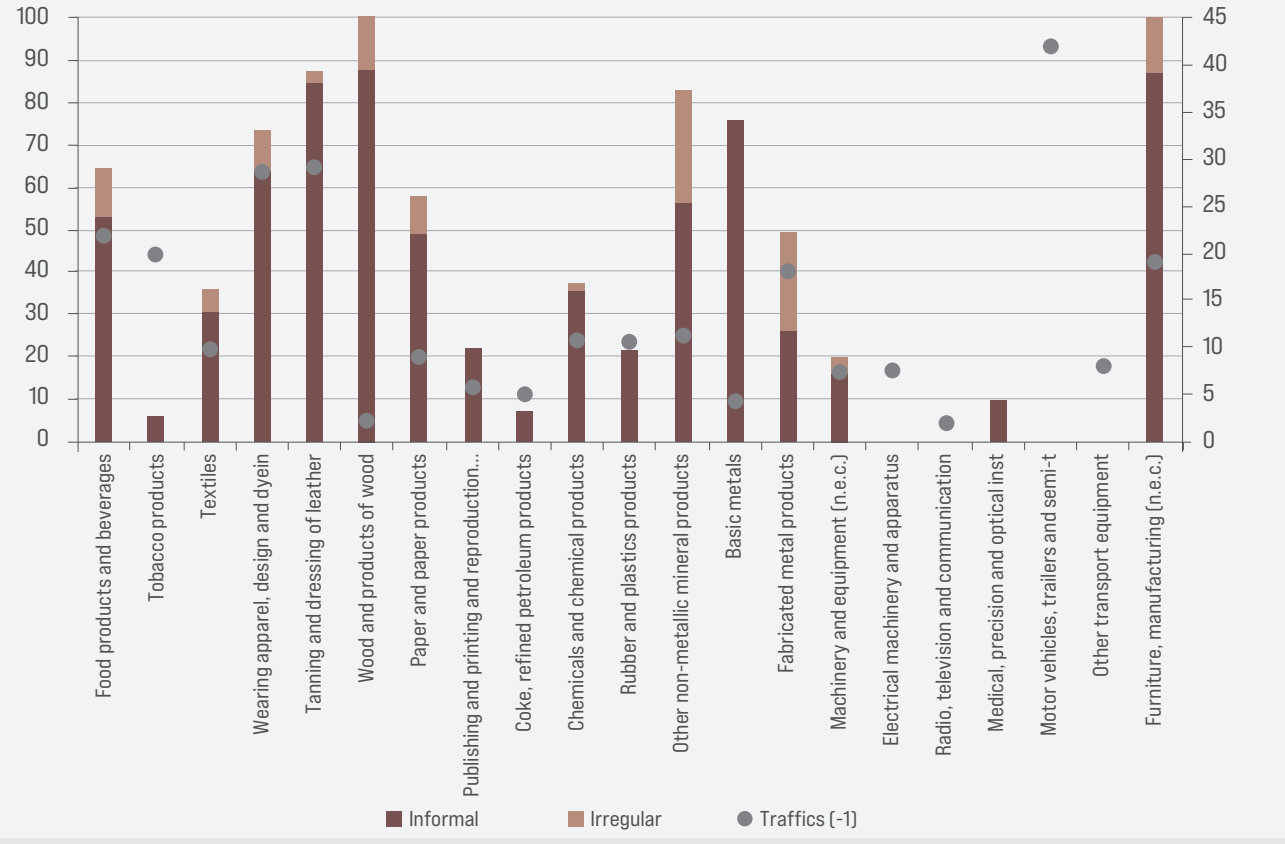
Source: Author, based on data from the World Bank World Integrated Trade Solution data set. Available from https://wits.worldbank.org/.

Note: Direct labour value added measures the total domestic labour value added directly to a sector's exports, or the wages paid directly for the production of the sector's exports (measured in millions of nominal dollars). Indirect labour value added measures the total (skilled and unskilled) domestic labour value added embodied indirectly in a sector's exports, or the wages paid indirectly via the production of economy-wide inputs for the sector's exports (backward linkages) (measured in millions of nominal dollars).

Abbreviation: n.e.c., not elsewhere classified.

As a result, since SDG 8 is aimed at creating decent jobs, exports can help to improve both the number and quality of jobs. First, as long as Egypt is specialized in capital-intensive goods, exports cannot create more jobs. Upgrading the exports structure to become labour intensive will therefore help to achieve the objective of creating jobs. As for "decent" jobs, Ben Salem and Zaki argue that the more trade is liberalized, the more firms will have to face fiercer competition.[10] They will therefore have to hire more productive workers that are generally formal workers. Consequently, trade can be perceived as a tool to formalize the informal sector and provide workers with better-quality jobs. This is confirmed by figure 131, where the share of irregular and informal workers is the highest in more protected sectors (such as clothing, processed food and the tanning and dressing of leather).

Figure 131. Informal, irregular shares and industry tariffs (2012)



Source: Ben Salem, M. and C. Zaki (2019). Revisiting the impact of trade openness on informal and irregular employment in Egypt. Journal of Economic Integration, vol. 34, No. 3, pp. 465–497.

Note: Informal employment conventionally refers to any job that does not comply with labour market legislation and does not provide worker benefits. It primarily concerns small firms. Irregular employment is defined as the number of workers with a contract duration of less than 12 months, the self-employed and contributing (unpaid) family workers.

3. SDGs 5 and 10: Link between trade and inequality

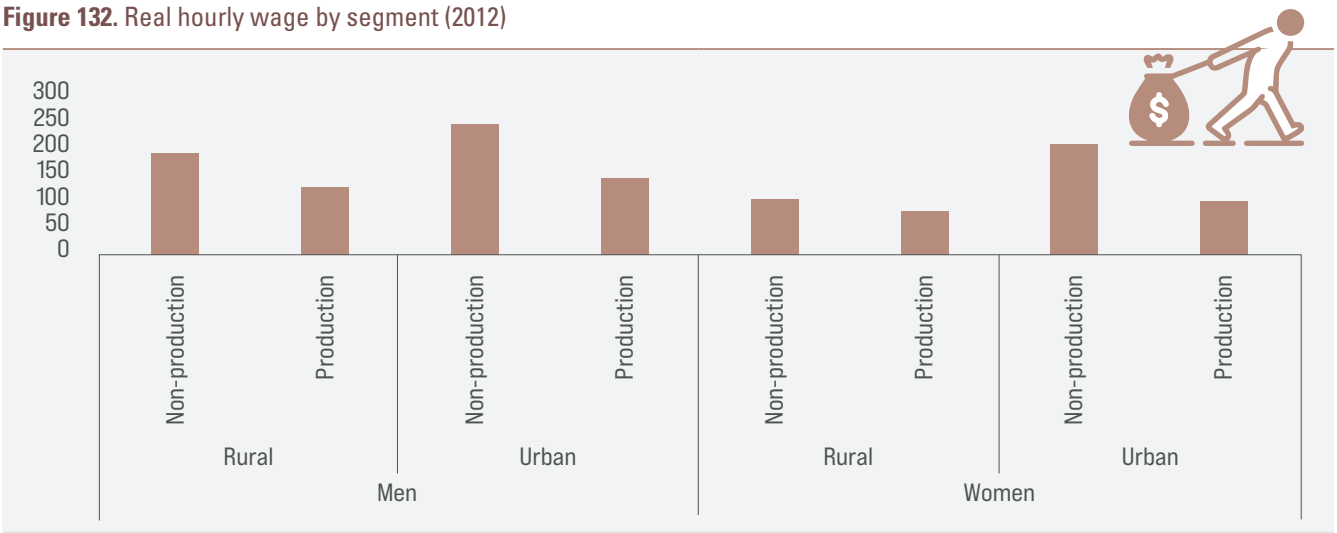
Lastly, there is also literature that shows that trade policy can increase or decrease inequality, in terms of both gender and skills. Indeed, in a more competitive framework (i.e. with a higher trade liberalization), the demand for women workers can increase and thereby reduce levels of gender inequality. Becker shows that, theoretically, free trade implies a more competitive environment and, consequently, a less discriminatory economy.[11] In the same line, Artecona and Cunningham find that the gender wage gap fell in industries that became competitive owing to trade liberalization.[12] In addition, with the skill bias of technological change, trade openness will lead to a higher demand for skilled workers, leading to more inequality between skilled and unskilled workers. This will depend on two factors: the abundance of each type of worker in a given economy and the skill requirements for exported goods.

Using data from the Egyptian Labour Market Panel Survey, figure 132 shows that men earn more than women for all labour segments and that the real hourly wage of skilled workers is higher than for unskilled workers. Nevertheless, since most Egyptian exports are more intensive in production labour compared to non-production labour (figure 133), boosting exports will increase the demand for these workers and reduce inequality between the two categories.

Figure 133 compares the real hourly wage of workers who work in protected sectors against those who work in sectors that are more open. Indeed, sectors that have a lower average tariff and do not have any non-tariff measures are characterized by higher wages. More open trade can therefore lead to less inequality and help to achieve SDGs 5 and 10.

All of these reforms will require more efforts at both the regional and multilateral levels, where the SDGs are mainstreamed in trade policy. Nevertheless, it is important to note that multilateralism is threatened by the recent trade war between the United States and China, the protectionist measures imposed by different countries to curb the COVID-19 pandemic and the WTO Appellate Body crisis. Deepening trade relations and saving the multilateral system can therefore empower partnerships for the SDGs (SDG 17).

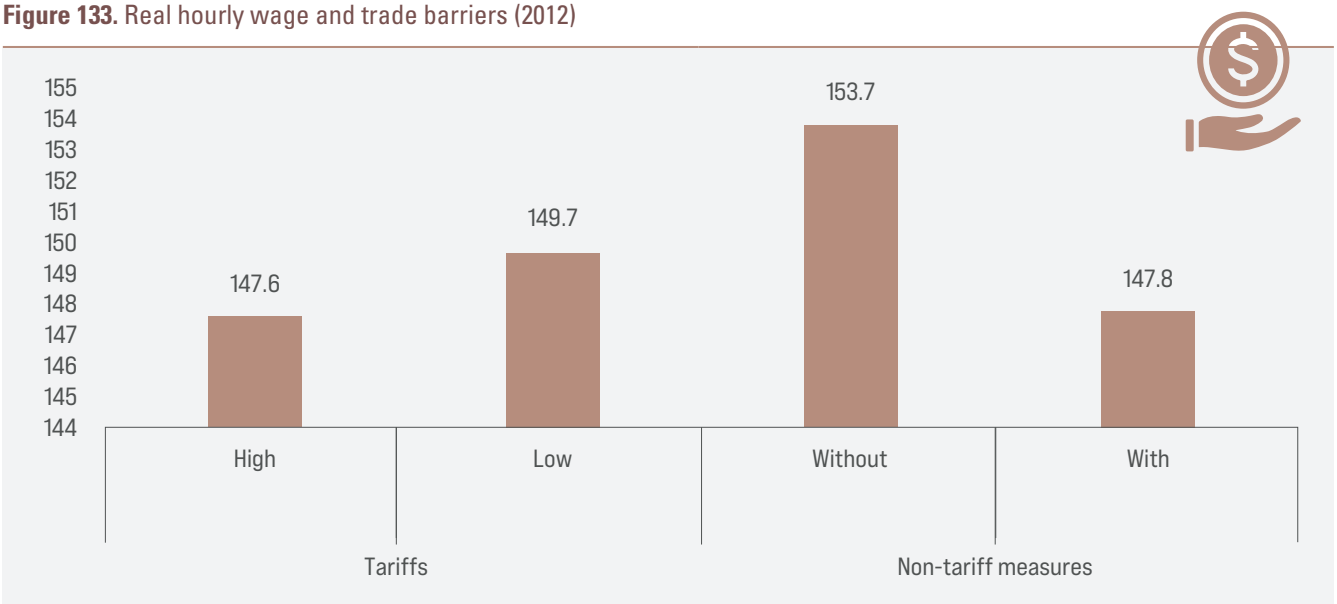
Figure 132. Real hourly wage by segment (2012)



Source: Author, based on the 2012 Egyptian Labour Market Panel Survey.

Note: Wages are in Egyptian pounds.

Figure 133. Real hourly wage and trade barriers (2012)



Source: Author, based on the 2012 Egyptian Labour Market Panel Survey.

Note: Wages are in Egyptian pounds

C. Conclusion and policy recommendations

> Integration into regional or global value chains will help Egypt to diversify and increase the complexity of its exports.

This chapter has shown the extent to which exports suffer from a number of bottlenecks that have negatively affected the social outcomes of trade policy in Egypt. This is why, from a policy perspective, in order to move forward, several issues should be taken into consideration.

1. A new export strategy

The Government of Egypt has recently announced its willingness to increase exports from $29 billion in 2019 to $100 billion. To develop an export strategy, supply-related factors that take into account the country's competitiveness must be combined with demand-related factors (measured by global import growth rates). Products can therefore be divided into four groups:

Catergory 1

Category 1 includes products with a high comparative advantage and high global demand. This category should be the first priority for Egypt, as Egyptian supply aligns with global demand. It includes the following sectors: chemical industries, wood and paper, processed foods, metals, agricultural products and electrical and electronic products.

Catergory 2

Category 2 includes products with high comparative advantage and low global demand. This category should be understood as a tool to increase exports in the short term, as Egypt is characterized by a comparative advantage but global demand is declining, especially in textiles and some metal products.

Category 3

Category 3 includes products with a low comparative advantage and high global demand, mainly machinery and equipment. In the medium term, this category should be considered the second priority for Egypt. Owing to the presence of global demand and the absence of a comparative advantage, government support is needed to increase the comparative advantage of these sectors.

Category 4

Category 4 includes products with a low comparative advantage and low global demand. This category must therefore be avoided because of the country's lack of a comparative advantage and the low global demand. This category includes some agricultural and chemical products.

Bearing in mind that the annual growth rate of exports is 9 per cent on average, Egypt will need 14.5 years to achieve the goal of $100 billion of exports if exports continue to grow at the same pace.[13] Nevertheless, the higher the annual growth rate, the shorter the period required. For instance, if the growth rate increases to 15 per cent or 30 per cent, the goal will be achieved in nine or five years.[14] Consequently, to boost exports and reach this goal, the Government will have to focus on the

first three categories.[15] At the destination level, with the ratification and the implementation of the African Continental Free Trade Agreement, it will be crucial to increase trade in African markets. Indeed, Youssef and Zaki show that Egypt is significantly undertrading with Africa and there is a significant potential in such a large market.[16]

It is important to note that, in April 2021, the Ministry of Planning and Economic Development launched a structural reform program that identifies several dimensions required to develop the institutional framework to promote the role of the private sector. More specifically, it targets the creation of a supportive and enabling environment for competition, facilitating and developing trade by removing obstacles and upgrading the transport and logistics sectors. This will improve the manufacturing sector and thus increase the competitiveness of exports.

2. A more inclusive trade policy

Several reforms are required in order to make trade policy more inclusive and thus help to achieve the SDGs.

SDG 9

For SDG 9 on industry and innovation, attract and channel more foreign direct investment into the manufacturing sector in general, and in priority sectors in particular, to develop global value chains and create more jobs. This will require a mainstreaming of industrial policy within trade policy. In other words, more coordination is needed between industrial priorities and trade policy developments.

SDG 8

For SDG 8 on decent employment, encourage domestic investment and channel foreign direct investment into the manufacturing sector to increase exports. A freer environment is associated with less informality, which will help to achieve this SDG.

SDGs 5+10

For SDG 5 on gender equality and SDG 10 on reduced inequalities, remove service restrictions and non-tariff measures that negatively affect wages in order to make trade freer. This will lead to increased competition and a higher demand for more productive workers, thus increasing wages and reducing inequalities.

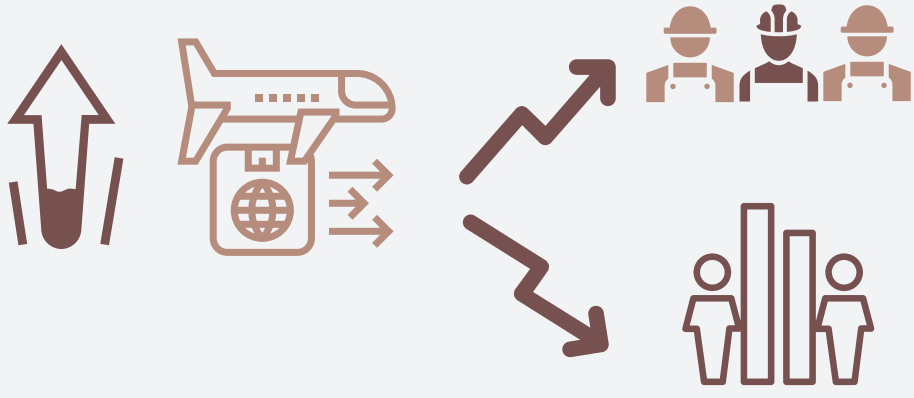
SDGs

Expand the country's trade agreements to address such issues will improve their effectiveness in terms of sustainable development. Moreover, strengthening multilateralism, international cooperation and global partnerships is crucial to avoiding protectionist measures that might impede the achievement of the SDGs.

The share of imports to GDP increased from

22.3% → **25.7%**

Boosting exports will increase the demand for these workers and reduce inequality between the two categories.



The Government of Egypt has recently announced its willingness to increase exports from

$29 BILLION → **$100 BILLION**

Endnotes

1. Ben Salem and Zaki, 2019; Al Azzawi and Said, 2009.
2. Youssef and Zaki, 2019.
3. HS2 is the two-digit level of the Harmonized System classification used for globally traded products.
4. Adly, 2018; Zaki, 2021a.
5. Rodrik, 2018.
6. Obviously, it is not sufficient to count the number of policy areas covered by a trade agreement. It is also crucial to determine the magnitude of preferential margins, product coverage and the application of rules on state aid competition administered under agreement in relation to the weight of trade undertaken within each preferential agreement. However, this requires a more detailed analysis for each agreement on its own.
7. UNCTAD (2018) argues that "trade agreements" should rather be properly designated as "comprehensive economic and trade agreements" to avoid limiting them to tariff removal only.
8. Karam and Zaki, 2019.
9. Abou Ismail and Ishak, 2021, Income, Decent Work and Economic Resilience: Three Proposed Indices for Arab Countries from a Human Development Perspective, mimeo.
10. Ben Salem and Zaki, 2019.
11. Becker, 1971.
12. Artecona and Cunningham, 2002.
13. Zaki, 2021b.
14. For more details on the estimation method, the products of each category, see Zaki, 2021b.
15. In order to calculate the number of years required, the following formula was used: (logYt-logY0)/(log(1+g)) = N, where Yt is total exports (100 billion), Y0 is total exports in 2019, g is the average annual export growth rate and N is the number of years required.
16. Youssef and Zaki, 2019.