Services in Egypt: The New Engine for Growth

By: Ahmed F. Ghoneim
Overview of Services Sector in Egypt

- Importance of Services in the Egyptian Economy
- Status of Services Liberalization
- How to approach services liberalization
Importance of Services in the Egyptian Economy
Overview of Services Sector in Egypt

Share in GDP

Source: Ministry of Economic Development data base, Feb. 2007
Overview of Services Sector in Egypt

Share in Employment

Source: Ministry of Economic Development data base, Feb. 2007
Overview of Services Sector in Egypt

Services in the Egyptian External Sector (I):

Source: Central Bank of Egypt database, Feb. 2007
Overview of Services Sector in Egypt

Services in the Egyptian External Sector (II):

Source: Central Bank of Egypt database, Feb. 2007
Overview of Services Sector in Egypt

Public Vs. Private Investments in Services Sector in Egypt:

Source: Ministry of Economic Development data base, Feb. 2007
Overview of Services Sector in Egypt

Foreign Participation in Issued Capital inServices Sector (I):

Source: GAFI database, March 2007
Overview of Services Sector in Egypt

Foreign Participation in Issued Capital in Services Sector (II):

Source: GAFI database, March 2007
# Overview of Services Sector in Egypt

(Cont’d)

## Table 1.: Indicators of Services Exports Performance in Egypt

<table>
<thead>
<tr>
<th>Rank among leading developing countries</th>
<th>Value in 2004 (million US$)</th>
<th>Value in 2003 (million US$)</th>
<th>Value in 2001 (million US$)</th>
<th>% change in exports’ value* in 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>9</td>
<td>3298.9</td>
<td>4016.3</td>
<td>47%</td>
</tr>
<tr>
<td>Transport**</td>
<td>2738.3</td>
<td>3298.9</td>
<td>4016.3</td>
<td>47%</td>
</tr>
<tr>
<td>Travel***</td>
<td>3800</td>
<td>4583.7</td>
<td>6125.1</td>
<td>61%</td>
</tr>
<tr>
<td>Communications</td>
<td>232.1</td>
<td>309.1</td>
<td>404.8</td>
<td>74%</td>
</tr>
<tr>
<td>Construction</td>
<td>141.2</td>
<td>222</td>
<td>406.4</td>
<td>188%</td>
</tr>
<tr>
<td>Computer and information services</td>
<td>22.2</td>
<td>22.7</td>
<td>33.3</td>
<td>50%</td>
</tr>
<tr>
<td>Insurance</td>
<td>9.4</td>
<td>NA</td>
<td>36.7</td>
<td>303%</td>
</tr>
<tr>
<td>Financial services</td>
<td>70.2</td>
<td>79.6</td>
<td>37.9</td>
<td>303%</td>
</tr>
<tr>
<td>Royalties and license fees</td>
<td>46.3</td>
<td>120.8</td>
<td>73.8</td>
<td>5%</td>
</tr>
<tr>
<td>Other business services ****</td>
<td>1736.7</td>
<td>2091.9</td>
<td>2779.7</td>
<td>60%</td>
</tr>
<tr>
<td>Personal, cultural and recreational services</td>
<td>18.8</td>
<td>72</td>
<td>69.1</td>
<td>268%</td>
</tr>
<tr>
<td>Government services n.i.e.</td>
<td>227.1</td>
<td>NA</td>
<td>235.6</td>
<td>-34%</td>
</tr>
</tbody>
</table>

* % change in comparison to 2001

** Excludes freight insurance, which is included with insurance services

*** Includes goods and services acquired from an economy by non-resident travelers during visits shorter than one year

**** Includes merchanting and other trade-related services; operational leasing services; and miscellaneous business, professional and technical services

Source: UNCTAD: Handbook of Trade Statistics, 2005
# Overview of Services Sector in Egypt

## Table 2.: Revealed Comparative Advantage for Egypt in Services

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Transport</td>
<td>1.47</td>
<td>2.03</td>
<td>1.56</td>
<td>1.54</td>
<td>1.23</td>
<td>1.40</td>
<td>1.34</td>
</tr>
<tr>
<td>Travel</td>
<td>0.88</td>
<td>0.44</td>
<td>0.53</td>
<td>0.95</td>
<td>1.47</td>
<td>1.46</td>
<td>1.52</td>
</tr>
<tr>
<td>Other services</td>
<td>0.63</td>
<td>0.67</td>
<td>1.04</td>
<td>0.73</td>
<td>0.60</td>
<td>0.57</td>
<td>0.57</td>
</tr>
<tr>
<td>Communications</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>1.23</td>
<td>1.43</td>
<td>1.29</td>
<td>1.30</td>
</tr>
<tr>
<td>Construction</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>0.00</td>
<td>0.60</td>
<td>1.20</td>
<td>1.68</td>
</tr>
<tr>
<td>Computer and information services</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>0.01</td>
<td>0.08</td>
<td>0.05</td>
<td>0.06</td>
</tr>
<tr>
<td>Insurance</td>
<td>0.26</td>
<td>1.06</td>
<td>0.37</td>
<td>0.07</td>
<td>0.16</td>
<td>0.12</td>
<td>0.10</td>
</tr>
<tr>
<td>Financial services</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>0.21</td>
<td>0.08</td>
<td>0.13</td>
<td>0.08</td>
</tr>
<tr>
<td>Royalties and license fees</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>0.11</td>
<td>0.11</td>
<td>0.20</td>
<td>0.11</td>
</tr>
<tr>
<td>Other business services</td>
<td>0.89</td>
<td>0.86</td>
<td>0.95</td>
<td>1.09</td>
<td>0.95</td>
<td>0.76</td>
<td>0.86</td>
</tr>
<tr>
<td>Personal, cultural and recreational services</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>0.03</td>
<td>0.11</td>
<td>0.48</td>
<td>0.34</td>
</tr>
<tr>
<td>Government services n.i.e.</td>
<td>0.40</td>
<td>0.54</td>
<td>3.77</td>
<td>1.01</td>
<td>0.44</td>
<td>0.77</td>
<td>0.36</td>
</tr>
</tbody>
</table>

Source: UNCTAD: Handbook of Trade Statistics, 2005 author’s calculations
Status of Services Liberalization
Multilateral level:

In December 2004, Egypt submitted some new offers including:

- Commitments in new sub sectors (*Construction*).
- Refinement of the economic needs test (*Insurance*).
- Elimination of expiry dates for some sub sectors (*Communications and Insurance*).

The revised offer was submitted in June 2005 and included commitments in new sectors as:

- Air transport
- Courier services
- Computer services.
- It increased the level of commitments undertaken in *Insurance* and *Construction*.
Status of Services Liberalization

Multilateral level: (Cont’d)

Egypt received plurialteral requests for opening up the following sectors:

- Telecommunication
- Computer
- Postal & Courier
- Distribution
- Environment
- Energy
- Construction
- Financial services
- Air Transport
- Maritime Transport
- Legal services
- Logistics’ services
- Cross Border Supply (Mode 1 & 2)
- Commercial Presence (Mode 3)
Status of Services Liberalization

The countries who submitted plurilateral requests to Egypt included:

- **Eight Developed Countries:**
  - Australia
  - Canada
  - European Communities
  - Japan
  - United States
  - New Zealand
  - Switzerland
  - Norway

- **One Developing Country:** India

- Egypt was one of the co-sponsors of the plurilateral request prepared by a number of developing countries (India and other Members) in order to liberalize mode 4 (Temporary Movement of Natural Persons) submitted to a set of developed countries.
Status of Services Liberalization

Regional Level: Two Initiatives:

- (Egypt-EU Partnership Agreement)
- (GAFTA)
Status of Services Liberalization

Regional Level

(Cont’d)

Under the Egypt-EU Partnership:

- July 2004: Istanbul Euro-Med Ministerial Conference “Commitment to liberalize trade in services”

- During the Istanbul Ministerial Trade Conference (July 2004), the “Framework Protocol for the Liberalization of Trade in Services” was adopted.
Status of Services Liberalization

Regional Level

(Cont’d)

Under the Egypt-EU Partnership:

- March 2006: Marrakech Ministerial Declaration,
  Outcomes: “Negotiations officially launched”.

- July 2006: The Euro-Med Negotiations on Services,
  “Trade Liberalization and Right of Establishment”.

- Negotiations to liberalize trade in Services took place in July 2006,

- But No Sector-Specific-commitments were negotiated.
Status of Services Liberalization

Under the New Neighborhood Policy, Action Plan includes:

- **Further liberalization of trade in services (GATS+)**
  - Develop administrative measures to facilitate services liberalization as stipulated by the GATS.
  - Simplify regulatory and administrative measures to foster the Egyptian Services Sector Competitiveness.
  - Increase information availability for Egyptian suppliers who seek to access the European market.

- **Co-operation is to be considered in the following sectors:**
  - Transport
  - Financial Services
Some members of the GAFTA adopted a special framework for services liberalization based on (GATS +) approach.

The special framework was adopted in December 2003.

Member countries are:

- Jordan
- Lebanon
- Emirates
- Saudi Arabia
- Kuwait
- Egypt
- Qatar
- Oman
- Bahrain
- Morocco
- Tunisia
Status of Services Liberalization

Under The GAFTA:

- Three meetings were held among the members (October 2004, May 2006 and February 2007).
- The first round involved Arab countries that presented their commitments.
- Participants included Egypt, Lebanon, Jordan, Qatar and Emirates.
- Egypt has been receiving a number of requests from Arab countries mainly concerned with horizontal commitments, business, communication, construction, and financial services.
- Egypt made requests to a number of Arab countries to liberalize professional, communication, construction, financial, transportation, audio-visual, tourism services, and mode 4.
- In the third meeting Egypt and Jordan agreed to fully liberalize three sectors (communications, computer, and education).
- Unilateral liberalization is often neglected.

- Law 8 of 1997 has opened so many service fields (e.g. aviation transport, financial leasing, housing projects for non-administrative purposes).

- The extent of such unilateral liberalization should be taken into consideration.
How to approach services liberalization?
How to approach services liberalization?
Approaching services liberalization:

Challenges of forming positions:

- Incomplete information.

- Scattered nature of firms which are probably small.

- Lack of public awareness among service providers.

- Structure of new trade agreements.

- Lack of full transparency of services negotiations.

- Insufficient mechanisms to involve domestic regulators.
Approaching Services Liberalization:

For effective negotiation, it is needed to know:

- Who is exporting what and where and by which mode.

- Who should be consulted (absence of full representation for services industries).

- Gaps Assessment: Determine exports interests: (as greater mode 4 access, right to trade without local establishment, identification of export niches as back office services).

- Make use of the position statements of private sector in WTO members available on WTO website.

- Determine the interest of domestic firms from domestic regulatory reform which might overlap with foreign requests.
Approaching Services Liberalization:

- Determine import interests: (as possible contribution of FDI to infrastructure, or competitive markets, or enhancing quality of services).

- It is important in the Gaps Assessment to know the status quo domestically and in the markets you want to target. In many cases the status quo is more liberal than what is mentioned in GATS schedules. “In other words know the water in tariffs for services”.

- Establish a mechanism for inter-governmental cooperation (creating joint committees or working groups that meet on regular basis) that include all line ministries and regulatory bodies.

- What type of non tariff barriers are affecting service exporters (make sure that you make ask for effective liberalization and not only theoretical market access and make sure that the complementary measures for any liberalization move you take are present).

- What role is there for service imports to ensure economic benefits from more liberal market access?
Approaching Services Liberalization:

There is an urgent need to ask each ministry to compile all laws, and regulations including municipalities’ regulations affecting their industry.

There is a need to clarify the domestic social objective of each regulation.

This should be the starting point to provide some guidance on how to negotiate.

A negative list approach exercise a la NAFTA should be adopted where a checklist for all the measures and their relevance should be examined.

For the status of other countries, Trade Policy Reviews and Accession Reports of WTO can act as a starting point.