# BARRIERS TO INTERNATIONAL TRADE: FOCUS ON EGYPT AND ITS TRADE REGULATIONS

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*Egypt has many international trading partners across the globe with the European Union being the major partner both in terms of export and import. Thus the partnership with EU has a large effect on its trade policy; however most of the attributes of Egypt trade barriers are rooted deep into its culture. Like other developing countries, there is also the tendency of the government to protect local firms. This study highlights major trade barriers especially as it applies to Egypt and also a discussion of how the reduction of these barriers can have a positive effect on the country's economic and social developments.*

*Key words: International Trade Import, Export, Barriers, Egypt, Economics, Government.*

*JEL-codes: F 12, F 13, F 42.*

## Introduction

Trade has played a major role for the survival of mankind. Surplus local produce generate revenue for local producers and through trade, local communities are able to get essentials produce that are not locally available.

Egypt being an ancient civilization has a long history of international trade which can be traced to its interaction with intercontinental communities. The World Trade Organization (WTO) has moved into reduce or eliminate trade barrier, promoting trade liberalization and free trade among countries. This has always received resistance from the leadership of member states who have reasons to regularize trade in order to protect certain domestic interest. From the other side, advantage of free trade are seen as the global efficiency of resource allocation, specialization of countries on good and services that they have the advantage to do best, and also the benefit it could accord consumers from the efficiency of production in terms of reduction in cost of production that can deliver goods and services at cheaper rate (Tupy, 2005).

The challenge of trade barrier in international trade especially as it relates to trade between developed countries and developing countries, in this context trade with European countries and Egypt can be itemized on three fundamentals issues.

- Some European countries are willing to eliminate subsidy provision to their producers, this is a big concern especially in areas like Agriculture where Egypt could have a competitive advantage without subsidies from either side but subsidy erodes the advantage of Egypt.
- Developing countries unwillingness to reduce tariffs on imported goods. This makes imported goods to be more expensive than what it should actually be and therefore leads to low demands. One of the reasons given for this is the income generated from tariff plans. African

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countries Egypt inclusive are seen to have the highest tariff barriers in the world. However there is plan for Egypt to gradually eliminate tariffs until its fully eliminated between EU and Egypt.

- Intellectual property rights protection are seen to favor developed countries that have the technology to support them, it limits the options of people in developing countries.

In the context of discussing trade agreements that would help to alleviate poverty and promote development, Chang H. (Chang H., 2005) argues: “Contrary to what developed countries would have us believe, there is a respectable theoretical case for protection for industries that are not yet profitable, especially in developing countries...Virtually all of today’s developed countries built up their economies using tariffs and subsidies (and many other measures of government intervention) throughout the 19th century and most of the 20th century (in particular until the early 1970s). Therefore a big “double standard” is involved when these countries preach the virtues of free trade.” (Chang H., 2005). So developing countries need tariffs and administrative barriers to international trade regulation.

## Administrative barriers to international trade

Barriers to imports are products of laws and regulations enforced by governments that have influence on international trade. Such barriers could be the prohibition of importation or exportation of certain goods, setting up of conditions to be met including licenses before certain goods can be imported or exported. Reddy K. gives the following as reasons for import regulation(Reddy K., 2011): revenue collection from import taxation, protection of domestic firms from competition and jobs; means of retaliating against trade barrier that may be imposed by foreign government and also for the preservation of foreign exchange. Import trade barriers can be classified as tariff barriers and administrative barrier. Tariff are import duties paid on goods that are being imported the charges are set based on the value of the product. Tariff barriers also include the administration of quotas on imported goods (Reddy K., 2011).

Tariffs are generally not regarded as trade barriers as it used by the government as a way of generating revenue from international trade, however when the usage extends to the regulation of a country’s international trade as economic policy, then it can be seen as trade barrier, especially when they are set at right rates and at measures to resist importation either to protect local firms or to guide against adverse effect of foreign exchange. When complete protection is desired, a given duty must be high enough to cover the differences, in the marginal cost of production between domestic and all foreign producers, including transportation and incidental expenses of importing. With partial protection, affected goods importation will come in small quantities which will be subject to government customs duties, which implies that the protection function-like the revenue although it’s purpose is primarily one of protection (Lu Y., 2011).

Administrative barriers are also called non-tariff barriers. The use of tariff is less prominent among members of WTO. Developed countries particularly have progressive cut tariff rates. Theirs is a progressive plan to reduce tariff rates between EU and Egypt to a point where the tariff will be completely eliminated between the two trading partners. However, administrative trade barrier is now prominent among international trading partners. We shall examine the difference kinds of administrative trade barriers which cannot be directly linked to laws or official regulations they include the following:

- Subsidies payments or assistance made by government to local producers to enhance their productions and make their more competitive with their foreign counterpart.

- Complicated custom procedures
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- Emergent response to importation of goods that may be considered injury to the economy.
- Import and export embargo with some countries
- Control of foreign exchange
- Technical barrier in the form of safety standard heath and environmental standard.
- Licensing schemes.

**Import quotas**

Import quotes impose limitation to the volume of goods that can be imported thereby inhibiting marked responses. The application is usually done with the issue of import licenses to trade merchant which are usually for a specific period, subject to renewal and for a defined volume of import. The classification of import quotas are according to unilateral quotas when the decision is made and enforced by one country. Bilateral quotes when it involves two countries and the details are jointly agreed and lastly multilateral quotes when it involves more than two countries.

**Anti-dumping**

The definition of dumping according to article VI of GATT dumping exist if goods exported from a country is at a lower price compared to the comparable price in normal trade if the product is meant for consumption in the exporting country. The definition of Jempa and Rhoen (Jepma C., Rhoen A., 2002) which sees dumping as the practice of selling a product cheaper in a national market compared with another market shows that the practice of duping can have an interesting twist as the exporting can sell a particular products at different prices in country and they could benefit from economies of scale if there is massive importation from the country where dumping takes place.

Developing countries are usually at receiving ends when it comes to dumping as the imported goods comes too cheap and tempting for consumers thus attracting high demand which may have effect on substitute goods or similar or good produced in the country of importation. Anti-dumping regulation usually comes in the form of punitive anti-dumping duty or remedial action. Anti-dumping can be seen as a measure to protect local firms against foreign competition. The stand of WTO against dumping makes many countries to use anti-dumping regulation as a legal too to fight trade injustice. Without the provision of WTO that kicks against dumping and the application of anti-dumping regulation with countries have similar factor of production of the partners is still able to take advantage over the other through market structure, product differentiation and branding.

**Subsidies**

This is payment made to domestic producers or exporters to enhance their production. This gives them advantage over producers in some other countries that lacks that support and in that way their goods goes across borders at cheap price than it would have been with subsidies and so they become attractive even in countries that have the capacity to produce such goods. Subsidies comes in the form of cash, subsidies exchange rates to producers to import intermediate goods tax exemptions, government patronage and some other special privileges. Subsidy nullifies the effect of import tariffs to exporter on products when taken across national borders. To counter this importing country imposes countervailing duty or special surtax in addition to impact tariff to nullify the effect of subsidies.

**National Security**

Governments also make trade regulations to defend national security. Since the formation of GATT researchers have found a linkage between National Security and international trade and despite growing literature and the expression of government to support free trade, national security has been used as excuse for countries to ban importation and exportation of goods. Sanctions and counter sanctions are sometimes used as tools. The Free Trade Agreement (FTA) acknowledges the need for national security consideration in pursuing for the economic integration and then permits national security exceptions. Many countries also have laws that limits export and import control on the basis of national security protection. Since the early 1980s, the US enacted various national security legislation which have direct effects on trades, services and investment (Trebilcock M.J., House R., 2005). Since there are no clear objectives as what constitute national security in relation to trade, this trade barrier is subject to abuse

**Evidence of trade lumpiness**

In the Southern Mediterranean region, Egypt stands as a major trading partner. In 2004, there was an Association Agreement between EU and Egypt; this has greatly improved trade conditions between the two partners. Trade data shows bilateral trade between the parties has doubled previous records from the time the trade agreement went into implementation. Trade volume was €11.8 billion in 2004 but €27.3billion in 2016. With the coverage of Egypt in international trade, EU remain the most important trade partner of Egypt, both in-terms of import and export to a volume of about 31.3%.

The following are the breakdown of EU imports from Egypt in 2016.

Table 1.

EU imports from Egypt and exports to Egypt in 2016, in billion € and %

| TRADE | AMOUNT in € | % |
|---|---|---|
| **Import** | | |
| Fuel and mining products | 2.9 | 43.20 |
| Chemicals, textiles & clothing | 0.8 | 13.20 |
| **Export** | | |
| Machinery and transport equipment | 7.8 | 7.90 |
| Chemicals | 3.2 | 15.70 |
| Fuels and mining products | 2.5 | 12.60 |
| Agricultural products | 2.4 | 12.00 |
| Services (business services) | 4.8 | |

*Source:* European Commission, 2017.

Table 1 shows the volume of EU imports from Egypt in 2016 on the major products imported from Egypt of which about 50% is fuel and mining products. It’s however worthy to note that chemicals textiles machineries and agricultural products are also being exported from Egypt to EU.

Table 2 however shows the great imbalance in international trade between EU and Egypt.

The statistics confirm that the trade deficit over three years has led to a shortage in Egypt. And more interestingly, imports from Egypt to the EU are declining, while exports are increasing. Accordingly, the imbalance in trade is growing.

Table 2.

EU — Egypt: Trade in goods in 2014-2016, in billion €

| YEAR | EU IMPORT | EU EXPORT | BALANCE |
|---|---|---|---|
| 2014 | 8.6 | 16.9 | 8.3 |
| 2015 | 7.3 | 20.4 | 13.1 |
| 2016 | 6.7 | 20.6 | 14.0 |

*Source:* European Commission, 2017.

To reduce or at least control it the discussion and negotiation towards the establishment of deep and comprehensive Free Trade Agreement (DCFTA) between EU and Egypt started in 2013. It's aimed to increase trade and investment between the two trade blocks. On implementation, DCFTA is expected to allow increase in access to market opportunities, improve investment climate and the support of economic reform in Egypt. The scope is expected to go beyond existing trade agreement to include other areas of trade outside the core areas such as: Services, procurement, intellectual property rights, competition and investment protection.

A protocol that established dispute, settlement mechanism was signed in 2010 this applies to dispute under the trade provisions of the Association Agreement. In 2014, the independent contractor assessed the sustainability impact (SIA) to promote the establishment of the DCFTA as high.

In Table 3 we can see the trade flow of Egypt with the rest of the world is displayed. The balance is progressively negative and the growth rates fluctuate between positive and negative figures. At the same time, we believe that Egypt has significant trading potential to have more market share in international trade.

Table 3.

Total Goods: Trade flows and balance (Egypt with the world)

| | **Imports** | | **Exports** | | **Balance** | | **Total trade** | |
|---|---|---|---|---|---|---|---|---|
| | Value Mio € | % Growth | Value Mio € | % Growth | Value Mio € | % Growth | Value Mio € | % Growth |
| **2006** | 16,202 | | 10,796 | | –5,406 | | 26,999 | |
| **2007** | 19,490 | 20.3 | 11,652 | 7.9 | –7,838 | 45 | 31,141 | 15.3 |
| **2008** | 35,645 | 82.9 | 17,733 | 52.2 | –17,912 | 128.5 | 53,378 | 71.4 |
| **2009** | 32,015 | –10.2 | 17,268 | –2.6 | –14,747 | –17.7 | 49,284 | –7.7 |
| **2010** | 39,839 | 24.4 | 20,559 | 19.1 | –19,280 | 30.7 | 60,399 | 22.6 |
| **2011** | 44,652 | 12.1 | 22,650 | 10.2 | –22,002 | 14.1 | 67,302 | 11.4 |
| **2012** | 52,554 | 17.7 | 22,758 | 0.5 | –29,796 | 35.4 | 75,313 | 11.9 |
| **2013** | 49,057 | –6.7 | 21,756 | –4.4 | –27,301 | –8.4 | 70,812 | –6.0 |
| **2014** | 51,327 | 4.6 | 20,092 | –7.7 | –31,235 | 14.4 | 71,420 | 0.9 |
| **2015** | 62,901 | 22.6 | 19,035 | –5.3 | –43,865 | 40.4 | 81,936 | 14.7 |
| **2016** | 52,745 | –16.2 | 20,502 | 7.7 | –32,243 | –26.5 | 73,247 | –10.6 |

*Source:* Eurostat, 2016.

Table 3 shows that there are a lot of potentials for Egypt.

Table 4 shows top trading partners with Egypt. EU rank highest at 32.2% followed by China at 12.9%, Russia is in the middle at 3.8% and Brazil is least at 3.0% in terms of importation. As regards exportation EU also ran highest at 25.7% followed by United Arab

Emirate (UAE) at 12.5%. The analysis of Table 4 shows that the reduction of trade barriers between Egypt and EU will go a long way to improve Egypt international trade stakes.

Table 4.

Egypt top trading partners (2016)

| Imports | | | | Exports | | | | Total trade | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Partner | Value Mio € | % World | | Partner | Value Mio € | % World | | Partner | Value Mio € | % World |
| | World | 52,75 | 100.0 | | World | 20,502 | 100.0 | | World | 73,247 | 100.0 |
| 1 | EU 28 | 16,99 | 32.2 | 1 | EU 28 | 5,260 | 25.7 | 1 | EU 28 | 22,251 | 30.4 |
| 2 | China | 6,825 | 12.9 | 2 | UAE | 2,559 | 12.5 | 2 | China | 7,272 | 9.9 |
| 3 | USA | 2,796 | 5.3 | 3 | Saudi Arabia | 1,585 | 7.7 | 3 | Saudi Arabia | 3,763 | 5.1 |
| 4 | Turkey | 2,26 | 4.3 | 4 | Turkey | 1,299 | 6.3 | 4 | USA | 3,712 | 5.1 |
| 5 | Saudi Arabia | 2,178 | 4.1 | 5 | USA | 916 | 4.5 | 5 | Turkey | 3,562 | 4.9 |
| 6 | Russia | 1,996 | 3.8 | 6 | Lebanon | 724 | 3.5 | 6 | UAE | 3,250 | 4.4 |
| 7 | Ukraine | 1,949 | 3.7 | 7 | India | 570 | 2.8 | 7 | Russia | 2,237 | 3.1 |
| 8 | South Korea | 1,946 | 3.7 | 8 | Libya | 526 | 2.6 | 8 | India | 2,223 | 3.0 |
| 9 | India | 1,653 | 3.1 | 9 | Sudan | 493 | 2.4 | 9 | Ukraine | 1,974 | 2.7 |
| 10 | Brazil | 1,563 | 3.0 | 10 | Jordan | 472 | 2.3 | 10 | South Korea | 1,967 | 2.7 |
| | | | | | | | | | | | |
| | EU 28 | 16,99 | 32.2 | | EU 28 | 5,260 | 25.7 | | EU 28 | 22,251 | 30.4 |

Source: Eurostat, 2016.

Table 5 shows major international trade goods in Egypt and their flows between 2013 and 2016.

Table 5.

Egypt with EU trade flows by SITC section 2013-2016

| | Total | **Imports** Value Mio € | | | | **Exports** Value Mio € | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | **2013** | **2014** | **2015** | **2016** | **2013** | **2014** | **2015** | **2016** |
| | | 7,970 | 8,579 | 7,261 | 6,692 | 14,899 | 16,881 | 20,403 | 20,643 |
| 0 | Food and live animals | 660 | 646 | 718 | 774 | 1,327 | 1,815 | 2,042 | 1,611 |
| 1 | Beverages and tobacco | 5 | 5 | 5 | 5 | 110 | 89 | 85 | 70 |
| 2 | Crude materials, inedible, except fuels | 273 | 267 | 268 | 271 | 1,352 | 1,588 | 1,180 | 1,031 |
| 3 | Mineral fuels, lubricants and related materials | 3,645 | 4,193 | 3,187 | 2,470 | 1,743 | 1,695 | 2,316 | 1,895 |
| 4 | Animal and vegetable oils, fats and waxes | 10 | 4 | 9 | 5 | 33 | 12 | 116 | 72 |
| 5 | Chemicals and related prod., n.e.s. | 1,161 | 1,163 | 726 | 884 | 2,736 | 3,012 | 3,357 | 3,232 |
| 6 | Manufactured goods classified chiefly by material | 1,069 | 1,170 | 1,074 | 1,030 | 1,895 | 1,928 | 2,097 | 2,388 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 7 | Machinery and transport equipment | 443 | 461 | 569 | 586 | 4,581 | 5,543 | 6,765 | 7,828 |
| 8 | Miscellaneous manufactured articles | 566 | 565 | 589 | 567 | 813 | 906 | 1,104 | 1,101 |
| 9 | Commodities and transactions n.c.e. | 46 | 38 | 24 | 28 | 173 | 108 | 94 | 69 |
| | Other | 89 | 66 | 91 | 72 | 137 | 186 | 1,248 | 1,346 |

*Source:* Eurostat, 2016.

Leading positions in the trade of Egypt and the EU are Machinery and transport equipment, Chemicals and related prod., and Manufactured goods classified chiefly by material.

### Importation restrictions on good to Egypt

A good number of imported produce are expected to go through inspection and approval of the Egyptian customs authority, this is also subject to duties payment. The items are expected to meet the standards of the Egyptian organization for standardization and quality control. Imported products are expected to labeled in Arabic, this could be in addition to foreign languages labeling the packaging and labeling are expected to indicate manufacturers' country of origin, quality and the ingredients used in the products, expiry date, storage instruction, net and gross weights, name and address of the importer and meat and poultry (Australian Trade and Investment Commission). The labeling are expected to have this statement written: "slaughtered according to the Islamic rituals" or simply "Hala slaughtered". Adequate hygiene and safety precaution are expected in the packaging.

Foreign Direct investment in Egypt is less than 25%, this is partly due to impediments to investment. Local firms are not allowed to higher more than 10% expatriate foreigners according to labour rule which is also opposed to sole proprietorship. Another impediment feared by foreign investors is the lack of protection of intellectual property rights. Foreigners can act in the capacity of commercial agents but they are not allowed to act as importers for trading purpose. Foreigners can only achieve this goal by going through an Egyptian importer.

To counter high prices of some stable products like: rice, sugar, steel and cement, the government in 2009 imposed temporary tariffs on these items. The actions signaled unpredictability of Egypt's trade policy in international market. Despite the fact that Egypt is signatory to international agreements, foreign judgments are usually not recognized in Egypt (US Department of State, 2011). High tariff rates still applies to a range of products. Tariffs on passenger cars with engines under 1,600cc were reduced in 2004 to a maximum of 40% while cars that has engines capacity in excess of 1,600cc have tariff rate of 135%. Foreign movies in general are subject to about 40% of the movie value. On apparel, tariff rate is 40%. The 2004 ministerial decree requires companies wishing to export to Egypt to register with the Egyptian General Organization for Import and Export Control (GOIEC). United States apparels and pears carry 40% ad valorem duty. In 2004, tariff rate on poultry was reduced to 32% while tariff rate on whole chicken was removed in 2006.

The following are products for which registration is required in Egypt before they can be allowed to cross Egypt border:

- Milk and milk products for retail sale in packages of 2 kg or less

- Preserved and dried fruits for retail sale in packages of 2 kg or less
- Oils and fats for retail sale in packages of 2 kg or less
- Chocolate and food products containing cocoa for retail sale in packages of 2 kg or less
- Sugar confectioneries
- Pastries and food preparations of cereals, bread and bakery products
- Fruit juices for retail sale in packages of 10 kg or less
- Natural, mineral and carbonated water
- Make-up cosmetics, oral and dental care products, deodorants, toiletries and perfume preparations
- Soap and surfactants intended for use as soap, for retail sale
- Floor coverings
- Bath tubs, sinks, wash basins, toilets, toilet seats and covers thereof;
- Toilet paper, cosmetic paper, diapers, and towels
- Tableware, cutlery and kitchenware
- Table glassware
- Reinforced iron
- Household appliances (stoves, fryers, air-conditioners, fans, washing machines, blenders, heaters)
- Home and office furniture
- Regular bicycles, motorbikes, motorized bikes
- Watches
- Lighting devices for home use
- Toys
- Textiles, clothing, furnishing, carpets, blankets and footwear except personal protection equipment and medical use clothes
- Carpets
- Footwear: The product manufacturer, trademark owner or its legal representative may submit the application for registration in person or pre-check it online (GOEIC). U.S. exporters are encouraged to apply in person, through a local representative, if necessary, to ensure proper submission of the required documentation. All documents submitted must be certified by the chamber of commerce at the location of issuance, legalized/notarized by the Egyptian embassy in the country of origin, and translated into Arabic. In addition to the application form, the following documentation is required.

## Gains in trade liberalization

Most empirical studies agree that openness in trade otherwise known as trade liberalization has positive effect on economic growth. Literature review shows that the gains can be seen as both static and dynamic. The static gain can be seen in the increase in foreign reserves and national welfare which is expressed in better output and social welfare. This makes it possible as international trade allows trading at international prices, importation of cheaper goods and the gain from specialization. The dynamic gain is from technology transfer who changes production structure and thus a long-term gain. The comparative advantage of international trade gives rise to economies of scale as international demand expand, this leads to reduction in production cost, capital accumulation and increase in employment (Sun P., Heshmati A., 2010). Endogenous growth of an open economy is achieved through "learning by doing" which exhibits diffusion of technology across goods and countries.

International trade is one of the channels of supporting technology spillover among countries which results in a favorable impact on productivity level (Saggari K., 2000). This opinion is also shared by Keller (2001), who wrote that international trade encourages the importation of intermediates goods of high quality helps to contribute to the diffusion of technology. Baron and Kemp (2003) wrote that import restriction were more likely to be favored if the other country did not trade freely if the goods were already made in one's own country, and if imports were currently restricted, thus importation of intermediate goods can be encouraged to make up for the restrictions of finished goods that can be locally produced.

It's obvious that Egypt which has wide channels for international trade especially with EU has a lot to gain if the country can be more liberal with its policy on international trade. The effort of the government to support reduction in trade barriers and the concept of open and multilateral trading system is acknowledged, but more can be done especially in limiting the stringent conditions imposed on imported goods. The government effort to negotiate tariff elimination with the EU the main trading partner is also commendable, continual negotiation of trade policies among trading partners will certainly be mutually beneficial.

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