PART 1

07

Egypt's Trade During COVID-19 Crisis: An Assessment of Responses and Implications

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Crisis and Fragility:
Economic Impact of COVID-19
and Policy Responses

Egypt's Trade During COVID-19 Crisis: An Assessment of Responses and Implications

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1. Introduction

COVID-19 is the main reason of the world economy slowdown, the global interruptions in the production systems and supply chains as well as widening budget deficits all over the world. The international trade decline increases pressure on oil prices. Travel restrictions reduce the international trade in services, namely, tourism and maritime transportation. As a result, a large portion of the export revenues will be negatively affected, causing a decline in foreign currencies supply and a deterioration in exchange rate which in turn drives the increase of imports payments and inflation rate.

This paper aims to identify the particular characteristics of the COVID-19 virus shock on Egypt, with special focus on trade prospects, and to determine the channels through which its impact is likely to affect Egypt's trade balance. It examines the likely impact on the Egyptian trade of a significant reduction in tourism and Suez Canal revenues because of the slowdown in the global trade due to the COVID-19 virus. It also sheds light on the policy responses and their implications.

2. Main Features of Egypt's Economy:

Egypt's growth increased from 5.3% in Fiscal Year 2017-2018 to 5.6% in 2018-2019. This rate was sustained through the first quarter of Fiscal Year 2019-2020 (Macro Poverty Outlook, World Bank). Despite the expected gradual recovery which was driven by a macroeconomic stabilization program[1], performance of growth is expected to be undermined by COVID-19 through its effect on production and exports. According to IMF statistics (Table 1) GDP growth is expected to fall to 2% in 2020 and pick up to 2.8% in 2021, subject to global economic recovery. Current account deficit to GDP was at 3.6% for 2019 and is expected to decline in 2020 (4.3%) and 2021 (4.5%). Government balance deficit declined from 19.8% of GDP to 5%, as well as debt-to-GDP ratio was improved to fall below 100% to be at 84.9% in 2019, because of fiscal consolidation and nominal GDP growth. Inflation fell to 13.9% in 2019, from 20.9% the previous year. The inflation rate is expected to drop to 5.9% in 2020 and increase to 8.2% in 2021.

Table 1.
Main Indicators of Egyptian Economy

Indicators	2017	2018	2019 (e)	2020 (e)	2021 (e)
GDP (billions USD)	236.53	249.56e	302.26	353.00	376.54
GDP (Constant Prices, Annual % Change)	4.1	5.3	5.6	2.0	2.0
GDP per Capita (USD)	2,495e	2,573e	3,047	3,478	3,627
General Government Balance (% GDP)	-10.8	-9.6e	-7.7	-7.1	-5.0
General Government Gross Debt (% GDP)	103.2	92.7	84.9	83.8	80.7
Inflation Rate (%)	23.5	20.9	13.9	5.9	8.2
Unemployment Rate (% of the Labor Force)	12.2	10.9	8.6	10.3	11.6
Current Account (billions USD)	-14.39	-5.96e	-9.30	-9.89	-8.76
Current Account (% GDP)	-6.1	-2.4	-3.6	-4.3	-4.5

Source: IMF, World Economic Outlook Database.
- (e) Estimated Data

1. Economic reform program launched as part of an agreement with the IMF in 2016 (worth USD 16 billion over three years).

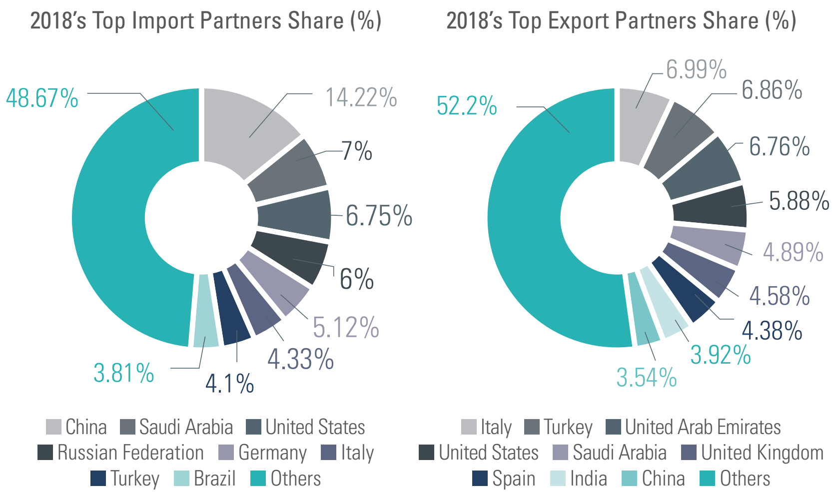
The previous main indicators declares that the Egyptian economy is improving, despite the drop in world demand. According to the Central Bank of Egypt (CBE), the annual consumer price inflation rate declined from 7.2 percent in January 2020 to 5.3 percent in February. The Egyptian pound (EGP) was considered one of the year's top-performing currencies where its value witnessed a steadily gained strength against the US dollar in 2019.

The Egyptian market has been gradually opening up, where trade represents 48% of GDP. Structurally, the Egyptian economy has a trade deficit of 10.5% of its GDP (World Bank, 2018). Egypt's primary trading partner is the European Union (30.9%); however, its main customers are Turkey and the United Arab Emirates (accounting for 6.9% and 6.8% of the country's exports, respectively), followed by the United States (5.9%) and Saudi Arabia (4.9%). The EU (chiefly Germany and Italy) and China are the main suppliers of goods and services in Egypt, followed by Saudi Arabia, the United States and Russia (Figure 1). According to the Chinese Ministry of Commerce, bilateral trade between China and Egypt reached 13.2 billion USD in 2019.[2] India is Egypt's 10th largest trade partner, where bilateral trade between India and Egypt increased from $3.68bn in India's FY 2017/18 to $4.55bn in FY 2018/19.[3]

Egypt has various cooperation agreements with many countries. In 2004, an agreement was signed with the European Union that allows industrial goods to enter duty free into Europe. In 2007, a free trade agreement was signed with 4 countries of the EFTA (European Free Trade Association) and with Turkey in 2005, also, the Agadir agreement among Egypt, Morocco, Jordan and Tunisia entered in force in 2007. In addition, Egypt is a member of the Greater Arab Free Trade Area (GAFTA), a pact of the Arab League that entered in force in January 2005. Egypt also belongs to the common market of eastern and southern Europe (COMESA) which could potentially lead to a customs union. Egypt has also signed a trade agreement with 21 other countries in the São Paulo Round of the Global System of Trade Preferences among Developing Countries (GSTP) (Societegenerale, July 2020),

2. Source: http://www.xinhuanet.com/english/2020-06/19/c_139149954.htm
3. Source: https://menafn.com/1100619100/Egypt-India-trade-reaches-453bn-in-FY20-despite-COVID-19-Ambassador-Kulshreshth 11-8-2020.

Figure 1.
2018's Top Import Partners Share, 2018's Top Export Partners Share (%),



Source: Author: World Bank, World Integrated Trade Solution, https://wits.worldbank.org

3. The Effects of COVID-19 on Trade:

The country-specific effects depend on the composition of production and exports by sector and destination, in addition to the level of openness of the country and its relative competitiveness in front of trading partners. (Maliszewska et al., 2020)

A. Trade of Goods: A Special referring on raw and Processed COTTON exports

The disturbance in global supply chains will adversely affect industries that depend on inputs from foreign markets, especially China, thereby affecting production levels that oriented to the domestic and foreign markets. Egypt's exports in cotton contributed around 471.63 million USD during 2019, constituting about 3% of its GDP. Egypt produces around 200,000 tons of cotton yearly and imports another 200,000 that it processes before exporting. The local availability of high-quality extra-long staple (ELS) cotton as an input for high-value apparel products has given Egypt a major competitive advantage in the textile and apparel sector. In 2018, exports of this sector (excl. raw materials) amounted to almost US$3 billion, representing roughly 12% of total exports (Ministry of Foreign Affairs, Feb. 2020).

One of the recent measures of improvements the Egyptian government had taken is investing 1.25 billion USD to modernize spinning, weaving, knitting, dyeing, finishing, printing and cut-and-sew manufacturing of the textile industry of the public sector. Even though Egypt has not imposed a full lockdown, its obligatory curfew and health measures have adversely affected cotton production and local demand by 30% to 40%. As farmers are reducing cotton crops and are focusing on other products while popular retailers like Zara and H&M have shut many of their stores worldwide from the fallout out of the pandemic, limiting consumers' spending. In addition, many farmers realized that they have to opt food security priorities by planting their fields with more food crops (Kamal, July 2020).

The last situation has a bright side, where focusing on food production has increased Egyptian's agricultural exports. According to a report issued by the Agricultural Quarantine Administration confirmed that the volume of agricultural exports since January has reached nearly 4.2 million tons. As a results to the outbreak of the COVID-19 epidemic in countries competing with Egypt in the Arab region and East Asia (e.g. India and Pakistan), agricultural exports has recently increased to the Arab Gulf countries especially in all kinds of onions, peas, beans, peas, lemons, onions, oranges, and potatoes. Exports of oranges and potatoes to Russia also increased greatly due to the same reason.

Egypt imports around 40% of its food requirements according to the Food and Agriculture Organization (FAO). Therefore, disruption of global value chains is likely to be a main form of economic damage, mainly because of China, but also in the rest of East Asia as well as the large world economies. This coincides with measures to build reserves of the major strategic commodities range from 4.2 to 11.9 months. April 2020, Egypt has imported substantial quantities to cover its needs for the year, particularly wheat. It has doubled its modern grain silo capacity (from 1.5 million tons in 2014 to 3 million tons in 2019). (Food and Agriculture Organization [FAO], 2020).

From the other side, COVID-19 has "little impact" on Egypt-China bilateral trade: bilateral imports and exports in the first quarter of this year reached 3.185 billion U.S. dollars, marking a slight increase of 0.91 percent compared to the same period last year.[4] In addition, Egypt's exports to India from January to March 2020 were at 353 million USD, while its imports from India were 549 million USD in the same period, despite the disruptions in February and March 2020 due to COVID-19.[5]

B. Trade of Services: Tourism and Transport

Almost 90 percent of Egypt's trade is take place via sea port. The Ministry of Transport attaches great importance to developing various sectors of transport, particularly the maritime transport through implementing a future strategy for the maritime sector in line with Egypt's sustainable development plan for the year 2030. The international trade slowdown as a result of the disruption of supply chains will also have adverse effects on revenues from the Suez Canal, which reached 5.8 billion USD in 2019 (Elnaggar, 2020). As a large share of all globally traded goods pass through the Suez Canal, revenues from the Canal may decline by between 10 percent (optimistic) and 15 percent (pessimistic) according to the estimates of the Egyptian Center for Economic Studies (ECES). Maritime transport plays an essential role in responding to the short-term emergencies of COVID-19, by facilitating the transportation of vital goods and products. Although the vast majority of ports have managed to remain open for shipping operations, most of them are still closed to passenger traffic (Union of Mediterranean, July 2020).

The 2018 ratio of exports of services to GDP reached around 9% in Egypt. Travel constitutes 49% of service exports in 2018. The last year has also witnessed a flourish of the tourism industry, which is a key pillar of the economy. It is a major source of employment and foreign exchange, with revenues of 12.4 billion USD in the 2018/2019 fiscal year. This represents an increase from $3.93 billion in the first quarter of the 2018/2019 fiscal year to 4.19 billion USD in the first quarter of the 2019/2020 fiscal year. The sector's added value was 140.5 billion Egyptian pounds (9.4 billion USD), 2.7% of GDP, in the 2018-2019 fiscal year. According to Egypt's Central Agency for Public Mobilization and Statistics (CAPMAS), the accommodation and food services employed more than 700,000 workers in the third quarter of 2019, accounting for 3.1% of total employment.

4. Source: http://www.xinhuanet.com/english/2020-06/19/c_139149954.htm
5. Source: https://menafn.com/1100619100/Egypt-India-trade-reaches-453bn-in-FY20-despite-COVID-19-Ambassador-Kulshreshth 11-8-2020.

Tourism has been by far one of the "most severely impacted sectors by the crisis", says Marina Wes, World Bank country director for Egypt, Yemen and Djibouti. It was one of the first industries and the hardest hit when COVID-19 entered Egypt. In March 2020, with COVID-19 beginning to spread in Europe, tourism declined sharply in Egypt with between 70 and 80 percent of hotel bookings being cancelled (ECES 2020b).

According to UNCTAD (2020), the GDP effects are much greater than the loss of tourist expenditure because of the indirect effects through the supply chain. In this regard, Breisinger et al. (2020) found that COVID-19 could reduce national GDP by between 0.7 and 0.8 percent (EGP 36 to 41 billion) for each month during the crisis' period. Tourist cancellations have already reached 80% in mid-March compared to the corresponding period in 2019, with an initial 138,000 job estimated at risk (OECD, April 2020). The decline in tourist spending will affect not only hotels, restaurants, taxi enterprises, and tourist guides, but also agriculture and food processing. The absence of tourists may cause monthly losses of EGP 26.3 billion or about 1.5 billion USD. That is, the total estimated impact is around one and a half times the expected direct loss in revenues of tourism (Breisinger et al. 2020).

4. Policy Responses and implications:

A. National Policy Responses:

The Egyptian Government has enacted temporary trade measures to confront the emerging COVID-19 and limit its spread (Table 2). These measures have been taken to restrict exports of vital medical supplies and to liberalize imports of vital medical supplies, as well as other essential products (Box 1). Egypt has imported substantial quantities in April 2020, particularly of wheat, to enhance food availability for the year (FAO, 2020).

The Ministry of Trade and Industry has issued two decrees banning, for three months, the export of infection prevention supplies, including face masks and alcohol, as well as its derivatives, to ensure the supply of these items as part of the government's precautionary measures to protect citizens.

On 28 March 2020, the Egyptian Ministry of Trade and Industry issued

Decree No. 194 imposing an export ban on all kinds of legumes for three months in response to the outbreak of COVID-19. The decree did not state the specific HS codes affected. This Decree comes within the framework of the Egyptian National Strategy to secure sufficient amounts for local consumption and protection of citizens against possible percussions of COVID-19.

On 15 June 2020, The Ministry of Trade and Industry issued Ministerial Decree No. 272 extending the export ban on beans and lentils for an additional period of three months. The subject goods fall under 0708.20, 0713.40, and 2005.51. The export ban on the remaining goods is set to expire on 28 June 2020.

Table 2.
COVID-19 temporary trade measures

Type of Measure	Affected products	Measure	Effect on Trade	Affected Partners	Status	Start Date	End Date
Export prohibition	beans, peas, lentils	June 15:New measure imposes a temporary (three months) export prohibition on beans and lentils only Minister of Industry and Trade introduced an export ban on certain type of vegetables.	Restrictive	All countries	Active	2020/03/31	2020/09/15
Prohibitions/ restrictions of imports for SPS reasons	garlic, carrots and green ginger	Egypt announced that imports of garlic, carrots and green ginger from China would be temporarily suspended.	Restrictive	China	Active	2020/02/09	Unknown
Export prohibition	masks, gloves, disinfection alcohol	June 18: Egypt extends export ban for further 3 months. March 17: Egypt bans exports of medical masks and rubbing alcohol for 3 months.	Restrictive	All countries	Active	2020/03/17	2020/09/17

Source: https://www.macmap.org/covid19

Box 1: Affected Food Products By Exports Ban

012 Vegetables

0708 Leguminous vegetables, shelled or unshelled, fresh or chilled.

070890 Other leguminous vegetables

017 Pulses (dried leguminous vegetables)

0713 Dried leguminous vegetables, shelled, whether or not skinned or split.

071331 Beans of the species Vigna mungo (L.) Hepper or Vigna radiata (L.) Wilczek

071333 Kidney beans, including white pea beans (Phaseolus vulgaris)

071339 Other

071350 Broad beans (Vicia faba var. major) and horse beans (Vicia faba var. equina, Vicia faba var. minor)

213 Prepared & preserved vegetables, pulses & potatoes

2004 Other vegetables prepared or preserved otherwise than by vinegar or acetic acid, frozen, other than products of heading 20.06.

200410 Potatoes

200490 Other vegetables and mixtures of vegetables

Source: https://www.globaltradealert.org/intervention/78953/export-ban/egypt-export-ban-on-all-kinds-of-legumes-covid-19

As for the tourism sector, the Egyptian banks has introduced stimulus measures through providing a $ 1.3 billion credit line to the tourism sector. Tourism enterprises were expected to use the credit to modernize facilities, pay workers' salaries, and prepare for recovery after COVID-19. The measures include suspending flights to and from Egypt, which led to the freezing of the tourism and travel sector. Hotels and other tourist facilities have begun to use the suspension to modernize themselves and prepare for the return of tourism movement after the pandemic ends. Museums and ancient sites in Egypt have started a campaign of cleaning and decontamination. The Ministry of Tourism and Antiquities is arranging some museums and making changes to others.

To maintain the performance of the entire economy during COVID-19 crisis, the Central Bank of Egypt announced and government announced various measures (Box 2).

Box 2: the Official Measures to Mitigate Economic COVID-19 Effects

Central Bank of Egypt
March 16: Cut by 300 basis points both the overnight lending rate (from 13.25% to 10.25%) and the overnight deposit rate (from 12.25% to 9.25%) in what it described as a "preemptive" move to support the economy in the face of the COVID-19 outbreak.

March 23: Told commercial banks to cut interest on dollar deposits to 1% above the London Interbank Offered Rate (Libor) instead of 1.5% above Libor, starting March 23, in order to control the exchange market and reduce the expected dollarization operations after cutting interest rates on March 16. March 29: Instructed Egyptian banks to apply temporary limits on daily withdrawals and deposits in a move seemingly designed to control inflation and hoarding during the coronavirus' spread, after 30 billion Egyptian pounds ($1.91 billion) were withdrawn from banks in the past three weeks. The daily limit for individuals would be 10,000 Egyptian pounds ($635) and 50,000 pounds for companies.

Government of Egypt
March 14: Indicated that the government will allocate 100 billion Egyptian pounds ($6.4 billion) to finance a "comprehensive" state plan for combating the COVID-19 outbreak. March 22: Announced that the government would allocate 20 billion Egyptian pounds ($1.27 billion) to support the stock exchange.
March 30: Ordered relevant authorities to boost strategic reserves of staple goods, as global concerns about food security rise amid the COVID-19 crisis.

Source: Jackson et al. (2020).

B. International Responses:

The European Bank for Reconstruction and Development (EBRD) is supporting the Egyptian Economy with a US$200 million financing package to National Bank of Egypt (NBE) for trade and for on-lending to local companies impacted by the coronavirus pandemic.

In addition, the Bank is increasing an existing uncommitted trade finance limit for NBE by US$100 million under the EBRD's Trade Facilitation Program to reach US$300 million, to help meet the increased demand for import and export transactions (Zgheib, June 2020).

The African Export-Import Bank (Afreximbank)[6] has disbursed a total of $3.55bn to the Egyptian Banking sector under its Pandemic Trade Impact Mitigation Facility (PATIMFA) since the outbreak of the pandemic in March this year. In an effort to boost long-term economic prosperity in the region, the bank has also provided $300 million to the National Bank of Egypt to support activities aimed at expanding intra-African trade.

PATIMFA is designed to assist Afreximbank member countries in managing the negative impacts of financial, economic and health shocks caused by COVID-19. By doing so, it helps maintain and enhance economic stability during a period of global uncertainty. The funds ensure that due commercial debt payments are met, and support the stability of foreign exchange resources in order to keep significant imports flowing. It will boost the liquidity of the central bank and local Egyptian lenders during the crisis, while ensuring the continuation of vital trade in commodities such as food and medical supplies.

Moreover, Afreximbank has also provided a $250,000 grant to support the Egyptian government's relief efforts regarding COVID-19. The support provided to the National Bank of Egypt reflects Afreximbank's continued commitment to promoting regional integration and intra-African trade – an area of development that is considered vital to the continent's recovery from the pandemic and its long-term economic resilience. The funds will support the operational expansion of the National Bank of Egypt through investment and trade in Africa. It will also boost its trade business between Egypt and Africa, which aims to increase its support for regional trade from $85 million in 2020 to $125 million in 2022.

As for the efforts of bilateral countries, China–Egypt have been cooperating closely in fighting the COVID-19 pandemic through exchanging medical aid and expertise and offering mutual support and solidarity. In early February, Egypt provided aid to China to help with its fight against COVID-19 and China later returned the favor by sending three batches of medical aid to the North African country, the latest of which was in mid-May.[7]

While some countries locked their borders with Egypt, like Sudan and

6. The African Export-Import Bank (Afreximbank) is a Pan-African multilateral financial institution with the mandate of financing and promoting intra-and extra-African trade. Afreximbank deploys innovative structures to deliver financing solutions that are supporting the transformation of the structure of Africa's trade, accelerating industrialization and intra-regional trade, thereby sustaining economic expansion in Africa. For more information see: https://www.afreximbank.com/egypt-afreximbank-disburses-3-55bn-to-cushion-impact-of-covid-19-300m-to-stimulate-intra-african-trade/

7. Source: http://www.xinhuanet.com/english/2020-06/19/c_139149954.htm

Israel, Sudan reopened its land border for trade with Egypt, after COVID-19 closure in March 2020, where 20 trucks carrying goods from Egypt will be allowed to enter the country through the border crossing. Food and consumable materials will be allowed, while personal items and furniture will not (Sudanese news agency SUNA). Market expanding has been an effective response to the probable exports shortage towards neighboring countries due to the lockdown. In a recent statement, the Egyptian Ministry of Agriculture confirmed that Egyptian agricultural products are currently invading most countries of the world, including European and American markets, which place harsh technical barriers on their imports of food commodities.

Upon the policy responses and international cooperation, Egypt successfully abled to overcome the supply risk by securing the food availability through imports, domestic production and food reserves. From the demand side, the government has taken a host of measures to mitigate the adverse effect of the crisis on households and on the business, banking and financial sectors.

The impact of export restrictions could be to increase prices of medical masks by 20.5 percent and of masks by 9.1 percent. Prices of protective equipment such as aprons and gloves are estimated to increase between 1 and 2 percent due to the current restrictions. Other products could experience smaller increases (Espitia et al., 2020).

Unfortunately, the tourism industry is unlikely to rebound until next season in light of the ongoing travel restrictions and the continuing psychological impact of the health risks associated with international travel. The demand shock will extend into recessionary trends that may affect domestic investment and employment.

5. Conclusion:

A global crisis requires global and local responses. Moreover, there is a need for global collaboration not just on health, but also on trade, finance and macroeconomic policies. Egypt should rethink its intra-regional trade integration - for example, in agricultural goods and food staples, which can help serve national food security goals. Moreover, building up regional value chains and enhancing intra-regional trade in services after the end of the disaster can help in mitigating the negative effects of the COVID-19 shock.

As the world changes in the wake of the COVID-19 pandemic, Egypt has an opportunity to address some of the structural reforms in the economy by boosting the confidence of the domestic private sector, as well as moving at a faster pace to promote technological transformation, particularly in the financial and health care industries.

Boosting the domestic private sector gives an opportunity to tackle some structural reforms in Egypt, as well as moving at a faster pace to promote technological change, particularly in the financial and healthcare industries, where Egypt intensively depends on imports of digital assets and services. Lastly, the Covid-19 crisis has given an important lesson regarding the necessity of supporting economic diversification where possible, as a high dependence on one or few sectors increases vulnerability.

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