

BOOSTING TRADE IN EGYPT

RACHID MOHAMMED RACHID, MINISTER OF TRADE AND INDUSTRY

Reforming is not for the faint-hearted. The reform path is unpredictable even when all your stones are well-aligned. Indeed, in many cases nothing you have planned works according to schedule. To prepare for surprises, either pleasant or unpleasant, I ask my team what they think can go wrong and tell them to expect it to happen. This approach is important in my role as Minister of Trade and Industry, part of the new economic reform team appointed in 2004 by President Mubarak. The team was tasked with reviving the Egyptian economy to achieve economic growth levels of 6 percent, provide employment opportunities to the 650,000 new entrants to the job market, and double both the foreign direct investment inflows and total trade, through more integration into the world economy. To add to the pressure, elections were due in 2005 and without any demonstrable change, the new cabinet risked not being in government any more. The need for reform was imperative.



RACHID MOHAMMED RACHID

Reversing the downward spiral

We were united in our resolve to collectively change the declining economic path Egypt was descending into. Annual GDP growth rate was barely 3 percent between 2000 and 2003. Industrial growth in particular had slackened to 2 percent, suffering from weak investment flows (including foreign direct investment levels of less than US\$500 million) and stagnant export growth. Not surprisingly, the unemployment rate was also high at 10 percent.

Identifying reform priorities

The new economic team immediately identified a number of priority areas, among which were taxes, the banking sector, and trade. There were many things to be fixed; however, we had only limited resources, so we had to be very focused and could not tackle all the problems at the same time. In the area of cross-border trade, we recognized the need for Egypt to be better integrated in the global economy. Trade and industry are the major pulling factors and the fundamental driving engines of the Egyptian economy. Although the previous governments had given some attention to trade reform, the trade environment was still weak in 2004. Ms. Nermine Abulata, an

economist and technical assistant to the Minister of Trade and Industry, states that indeed in 2004 Egypt's trade processes were still burdensome and costly, reducing its trade competitiveness. In 2004, more than 26 approvals were required to release goods from Egyptian customs. Customs clearance could take as long as 20 days or more, with inspections alone accounting for two weeks. The cumbersome and bureaucratic nature of the clearance process opened up several avenues for informal payments. Customs revenue was low, and a relatively high number of customs disputes occurred. Further, due to port congestion, container surcharges were imposed by shippers to accommodate the delays, and traders incurred high demurrage for long storage periods.

The real reform challenge

In my capacity as Minister of Trade and Industry, in many ways my challenge was not so much about what to reform but how to reform, given the limited resources and challenges of capacity building and pressing time demands. Because of the high customs tariffs rates and the poor performance in several industries, it was clear that several tariffs were protecting inefficient industries, locking up resources in unproductive ventures. But cutting tariffs

Trade Facilitation Reforms Carried Out during the 2003–2007 Period

1. Inspections and customs procedures have been simplified through an Electronic Data Interchange.
2. Post-clearance audits are conducted for large importers through customized accounts.
3. The number of tariff bands has been reduced from 27 to 6 rates.
4. Additional duties and fees have been eliminated.
5. Certificates of origin from preferential trading partners no longer require customs approval.
6. New customs law and its implementing regulation have simplified the customs regime.
7. A Risk Management System is operational.
8. Advanced Customs Centers have been established in Alexandria and Suez, with well-trained customs personnel.
9. A Call Center has been established for swift processing of traders' complaints.
10. There is now an automated network connection between the General Organization for Exports and Imports Control, the Customs Authority, and Cabinet of Ministers Information Center.
11. A one-stop shop has been established at the General Organization for Export and Import Control.

to more optimal levels was too sensitive a thing to do. There were too many entrenched interests, and touching it could bring us down. The government was fearful of losing revenues, which were already at low levels. Further, the new government deemed it necessary to gain preferential access to international markets by signing free trade agreements and partnerships with key trade partners, such as the EU, US and Israel, Turkey, Russia, China, and the Arab states. This was considered controversial. Furthermore, it was clear that reforms were needed in Customs – at a minimum, changing it from an institution of control compliance to one that was trade-facilitating in nature. An issue was how to do this when the customs control culture was well entrenched. We could change the laws and regulations, but that would not have any effect if we didn't change the mindset of the people. Changing laws alone is not enough. If we don't get people to move with us, they will find ways to render the new laws ineffective. Recognizing this, the reforms implemented (see box) were carried out with the support and input of the people.

A strong advocacy campaign was carried out explaining the benefits of the reform in order to win the support of the people. Communication is a key component of our reform strategy. Several channels were used to get the messages across. Workshops, seminars, and the creation of a trade inquiry point were employed. I have over 45 different committees that fully partner with the private sector under my Ministry. We are also very transparent and candid with our reforms. There is no need to play games with the public.

However, it is important to identify your constituency of “winners” and give them a voice in the reform process. This is very important, as with many reforms, the “losing minority” tend to be the most vocal, whereas the “winning majority” may not be even aware of the potential benefit to them and so remain silent. One constituency of particular importance in reform success is the youth. Given that the benefit of reform is in the future, our youth need to have a voice in the reforms.

In addition, the potential losers were included in the reform process. With respect to the tariff reforms in particular, it was explained to potential losers why the status quo could not remain – why producers could not continue exploiting consumers by producing poor quality goods at high prices. We also let them know that we were prepared to support producers in upgrading the quality of their products to compete internationally.

Change can happen

Though reforms are still ongoing, there have been tangible results in the initial few years of reform implementation. By 2007, customs clearance was reported to have fallen to 1 day from over 20 days in 2003; consequently, cargo storage time in warehouses dropped from 28 to 2 days, thereby reducing storage/demurrage costs – one study estimates that this drop in costs has translated into a 15 percent decrease in import prices and a 17 percent increase in export margins. Furthermore, customs disputes are observed to have fallen from 35 percent of all customs transactions to less than 1 percent. All of which has contributed to a 175 percent increase in export performance between 2003 and 2006. Indeed, GDP growth has accelerated since 2003/2004, increasing from 4.2 percent to reach 7.1 percent in 2006/2007, fueled to a large extent by the expansion in trade. Foreign direct investment is also up to US\$11.1 billion, compared with US\$500 million in 2003. By all indicators, the reversal in Egypt’s economic fortunes has been impressive.

Smart Lessons:

1. Engage people early on in reforms through effective communication.

It is most likely that there will be opposition to reforms. Consequently, it is important to identify and engage the potential winners of the reforms early on in the reform process to build a strong support base for them. A key component of a successful reform process is an effective communication strategy. The potential winners of the reforms need to know the benefits, and the

potential losers need to understand why the status quo cannot remain. In doing so, the government has to announce clearly its objectives and be open and transparent, without playing tricks on the public.

2. Anticipate resistance and obstacles to reform.

When reforming, our experience shows that the government needs to anticipate challenges. To stay the course, strong political support is thus required. In Egypt, the successes of the reforms can be attributed to the strong political commitment from President Mubarak. Furthermore, the managerial excellence of the reform-minded ministers of, inter alia, the ministries of Trade and Industry, Finance, Investment, and Transportation contributed to the successes of the reforms.

3. Have solid teamwork.

Last but not least, the strength of our reform program is mostly due to our shared vision and the cohesive relationship between the Prime Minister, the Ministerial Council, and the Ministerial Economic Committee. We remain focused on the objectives that we set ourselves. From the outset in July 2004, there has been intensive cooperation between the economic team, the ministries, and government, as well as extensive open communication with the private sector.

About the Author

Rachid Mohammed Rachid. Before Rachid Mohammed Rachid became Minister of Trade and Industry, he had spent more than 20 years in international business, including as President of Unilever North Africa, Middle East, and Turkey. He also acted as chairman of the Board and consultant for several multinational companies based in the UK. Present international activities include membership in the executive committee of the Arab Business Council, the World Economic Forum, and the Investment Advisory Council in Turkey.

As minister, his duties include acting as alternate Board Governor at the Arab Development Bank for Economic Development in Africa, and member of the COMESA Bank Board of Governors.

The author would like to thank Caroline van Coppenolle, Jacqueline Den Otter, and Allen Dennis for their assistance in preparing this paper.

DISCLAIMER

IFC SmartLessons is an awards program to share lessons learned in development-oriented advisory services and investment operations. The findings, interpretations, and conclusions expressed in this paper are those of the author(s) and do not necessarily reflect the views of IFC or its partner organizations, the Executive Directors of The World Bank or the governments they represent. IFC does not assume any responsibility for the completeness or accuracy of the information contained in this document.

Please contact the program at smartlessons@ifc.org.