

# Bilateral liberalisation in the Automotive sector Egypt – EU

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16<sup>th</sup> Annual Short Course in Global Trade Analysis

# Outline

- Background & shocks
- Methodology
- Simulation Results
- Concluding remarks

# Background & Shocks

- Egypt is a net importer of automobiles & applies an import tariff (approx 20%) on automotive imports from all sources, with the exemption of USA (6%)
- USA the biggest exporter of automobiles into Egypt while EU is the second
- We tested the impact of liberalising bilateral trade of automobiles between Egypt & EU (we set tariffs to zero) on Egypt, EU and the USA

# Methodology

- GTAP database version 6
- Standard GE closure
- Variable shocked: tms (import tariff)

Shock tms("cartrn", "Egypt", "EU") = -0.0000

Shock tms("cartrn", "EU", "Egypt") = -16.5803

- Analyse results
  - GDP & welfare
  - trade flows & domestic production

# Simulation results & insights

**Egypt-EU liberalisation**  
million 2001 \$

	GDP in 2001	GDP	EV Welfare	Allocative Efficiency	Terms of Trade	Investment Savings
<b>Egypt</b>	81,519	3.46	-0.2	3.46	<b>-7.65</b>	3.99
<b>EU</b>	8,281,309	-2	57.87	-1.81	58.40	1.29
<b>USA</b>	10,098,768	-27	-72.42	-27.13	-30.32	-14.96

TOT contributes mostly to welfare change:

$$\text{tot}(r) = \text{psw}(r) - \text{pdw}(r)$$



Export price (fob)

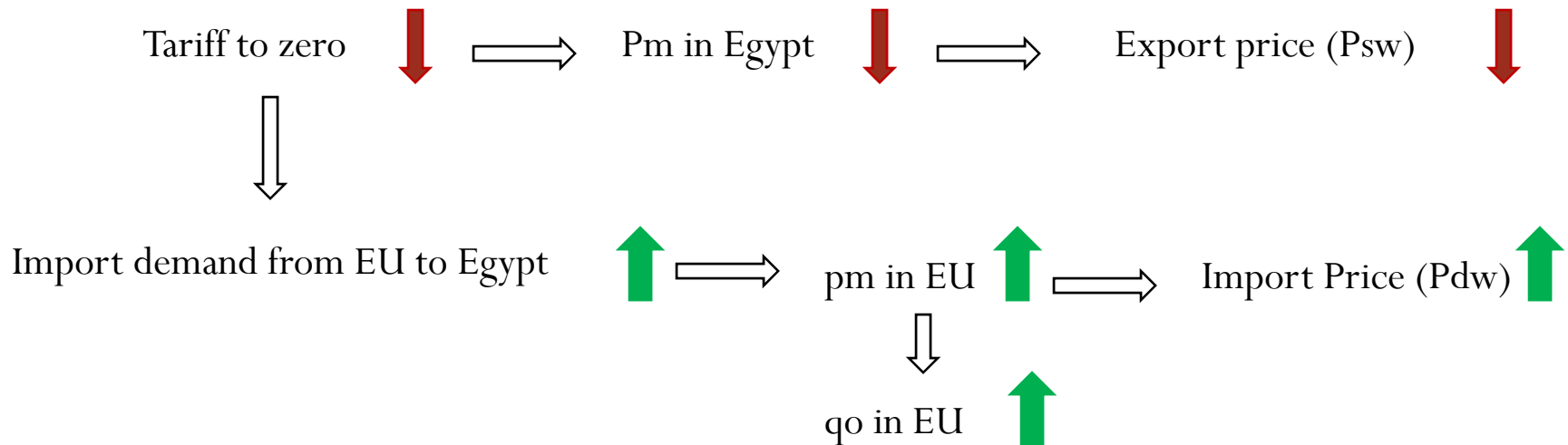
Import cif price

# 1. Why has the TOT of Egypt deteriorated?

## Impacts on domestic production and market prices

		Egypt	EU <i>% change</i>	USA
Domestic production	qo	-1.48	0.07	-0.05
Market prices	pm	-0.86	0.04	0

$$\text{tot}(r) = \text{psw}(r) - \text{pdw}(r)$$



## 2. Little changed on the export side in Egypt

### Egypt's Automotive exports

	Pre mio \$	Post mio \$	Change mio \$
1 CENTAM	0	0.0	0.0
2 China	0.3	0.3	0.0
3 Egypt	0	0.0	0.0
4 EU	27.2	28.5	1.3
5 India	0	0.0	0.0
6 Japan	0.4	0.4	0.0
7 LDC	4.8	5.0	0.2
8			
MERCOSUR	0.1	0.1	0.0
9 MEXICO	0.1	0.1	0.0
10 ROW	5.2	5.5	0.3
11 USA	1.4	1.5	0.1
12 XME	3.3	3.5	0.2
Total	43	45.0	2.0

Source: GTAP 6 database, variable VXWD

- There was no initial EU import tariff on automotive imports from Egypt
- Egypt's export flows of automotives are extremely low
- They increased slightly, mainly towards EU

# 3. Trade diversion follows Egypt-EU liberalisation

A small expansion effect, but a large substitution effect

## Egypt's Automotive imports

	Pre		Post		Change mio \$
	mio \$	% share	mio \$	% share	
1 CENTAM	0.0	0.0	0.0	0.0	0.0
2 China	47.7	2.8	32.5	1.9	-15.2
3 Egypt	0.0	0.0	0.0	0.0	0.0
4 EU	387.0	22.6	844.7	48.3	457.7
5 India	20.5	1.2	14.0	0.8	-6.5
6 Japan	119.0	6.9	81.1	4.6	-37.9
7 LDC	1.3	0.1	0.9	0.0	-0.4
8 MERCOSUR	9.9	0.6	6.7	0.4	-3.2
9 MEXICO	0.2	0.0	0.2	0.0	-0.1
10 ROW	239.7	14.0	163.3	9.3	-76.4
11 USA	880.7	51.4	600.1	34.3	-280.6
12 XME	8.6	0.5	5.9	0.3	-2.7
Total	1714.7	100.0	1749.3	100.0	34.6

Source: GTAP 6 database, variable VXWD



# 4. Why such a large substitution effect?

## Impacts on Egypt's import demand and prices

		EU	USA	Aggregate	
		% change		% change	
power of import tariff	tms	-1.19	0		
demand of imports	qxs	118	-31.86	2.2	qim
domestic price for good i from r to s	pms	-16.58	-0.003	-6.12	pim

- The increase in the aggregate demand of imports in Egypt is mostly explained by the demand of automobiles from EU
- There is a substitution effect of imports away from other sources because domestic price of automobiles from EU decreased by 16%

谢谢!

Grazie!