

DISCUSSION DOCUMENT

# Impact of Liberalization of Apparel Imports to Egypt

## Zero-for-Zero Import Tariffs on Apparel Between China and Egypt

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# Michael Phelps, Olympic athlete and CIA spy, defects during the Beijing Olympics and ignites a Democratic revolution in China



## BASELINE

- ▶ Egypt currently imposes a 38% import tariff on Chinese apparel
- ▶ China currently imposes no import tariff on Egyptian apparel

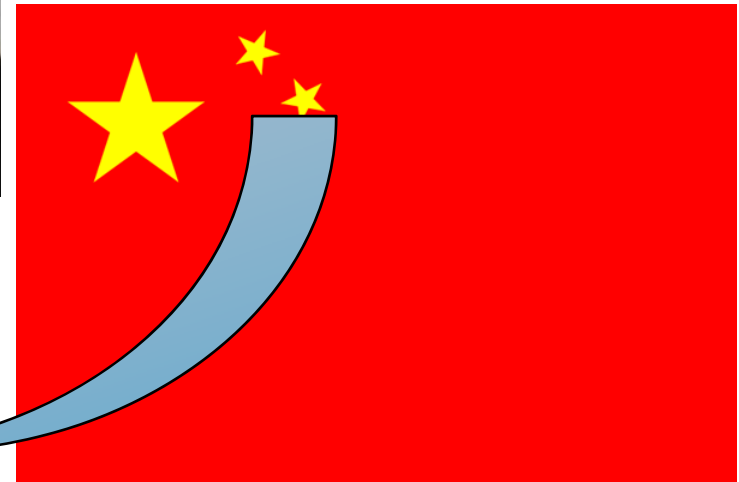
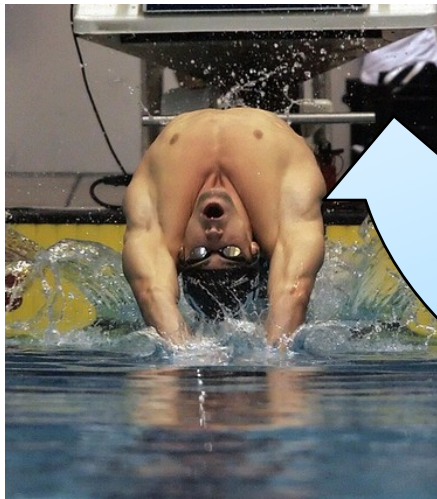
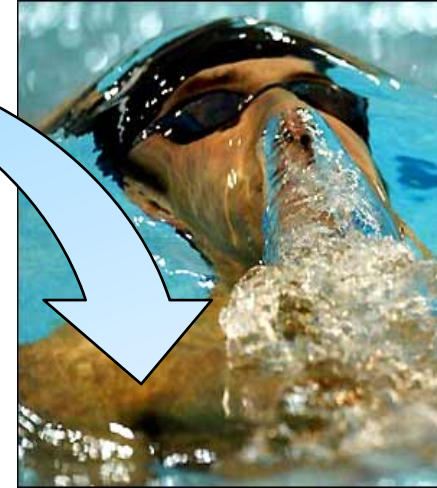
## SHOCK/CLOSURE

- ▶ Egypt and China eliminate bi-lateral tariffs on apparel
- ▶ Unemployment permitted in developing countries

## POLICY DEBATE

- ▶ China theorizes that it stands to improve exports of apparel to Egypt
- ▶ Egypt expects consumers to gain from lower import prices, but is concerned with employment

**“Every economist knows, the first step in world domination is apparel trade” – Csilla Lakatos (Chief Economist, Phelps Society)**



# Egypt experiences an overall welfare loss despite increased employment

Decomposition of Egypt's Welfare (\$ Millions)

WELFARE	Allocative	Endowments	Terms of Trade	I-S Balance	Total
Egypt	0.7	89	-135.5	-60.1	-106

Endowment Effect:  
Gains to increased employment of unskilled Labor

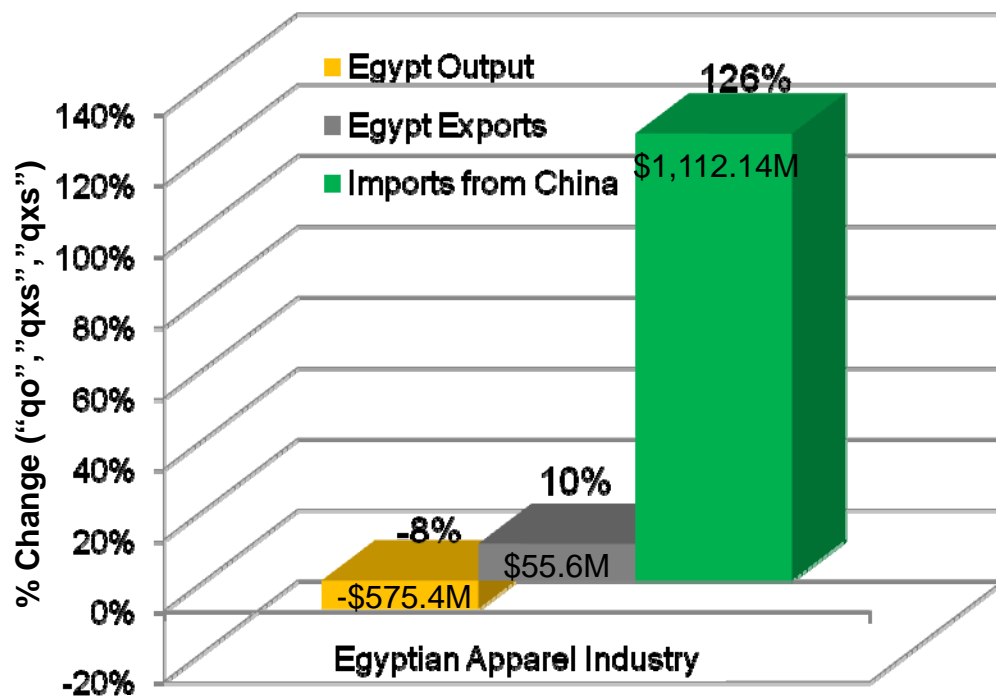
Terms of Trade:  
Egypt's export prices decrease for all commodities, but only apparel import prices decline

Total Welfare:  
Total loss masks some positive sector-level impacts

- ▶ The scenario assumes a perfectly elastic supply of labor; Otherwise the imposition of full employment precludes gains from the endowment contribution to EV
- ▶ Positive *endowment effects* from the ability to increase employment of unskilled labor
- ▶ Terms of trade suggest that Egypt's export prices decreased at a rapid pace relative to world prices.
- ▶ ***The China-Egypt apparel liberalization scenario leads to -1.3% change in Egypt's GDP***

# Looking at the industry level, Egypt's Apparel industry contracts due to a surge in Chinese imports

Impact to Egypt's Apparel Industry

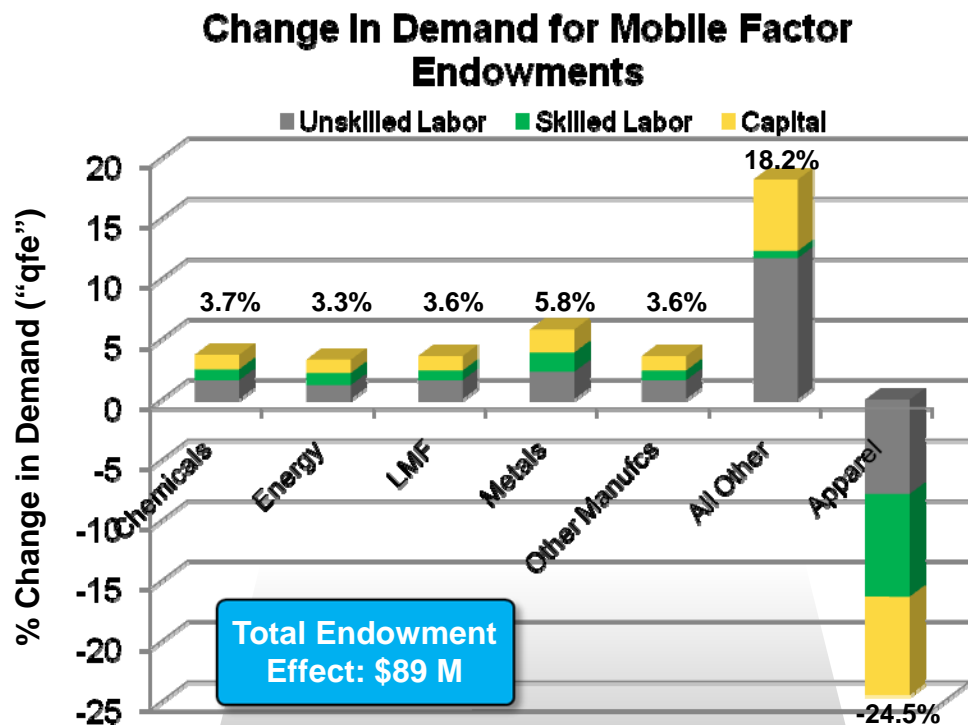


## Key Takeaways

1. Tariff reduction made Chinese imports more competitive
2. The price of Chinese apparel imports to Egypt decreased by 27% (entirely tariff related)
3. Egypt's domestic price of apparel declined 1% relative to the world price

Note: Exports, Imports and Output at initial market prices

# The benefits from partial liberalization of Apparel allow for greater utilization of mobile factor endowments



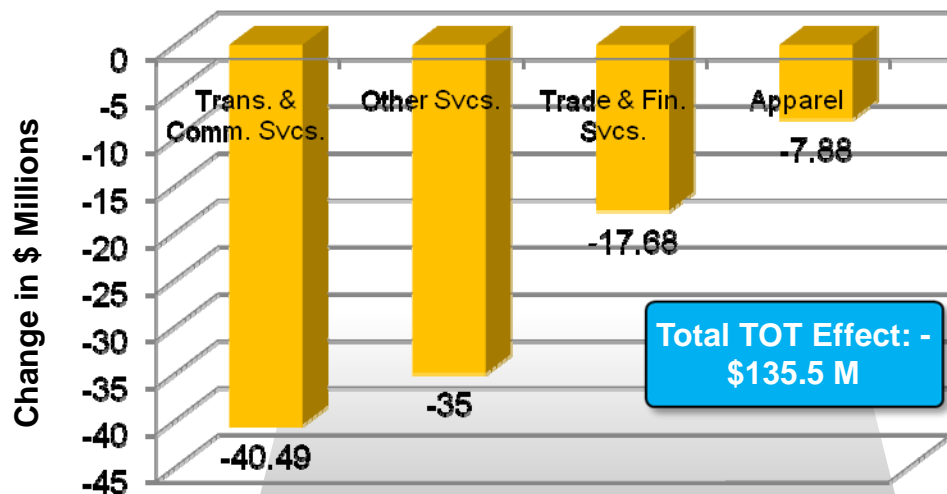
- Overall increase in demand for unskilled labor in Egypt (0.335%)
- Income of unskilled labor increases by **\$89 million** (original VFA for unskilled labor \* Δ labor demand)

## Key Takeaways

1. Egypt experiences a re-allocation of mobile factor endowments away from Apparel to other industries
2. The results indicate that Apparel was inefficient pre-liberalization
3. Increased employment of unskilled workers
4. Decreased price of apparel as an intermediate input

# The Terms of Trade welfare effects are due to relative shifts in Egypt's export and import prices

**Top Contributors to Terms-of-Trade Effects**



- Largest declines in export prices of Other Services (-2.4%), Mining (-1.2%), and Apparel (-1.0%)
- Prices for Transport. & Comm. Services and Trade & Financial Services decreased by -0.8%
- Import prices increase slightly

## Key Takeaways

1. Prices on all Egyptian exports are decreasing
2. Prices on imports to Egypt decline minimally
3. Output in all industries, except Apparel, is increasing

$$\text{tot} = \text{psw} - \text{pdw} \\ (\text{pfob} * \text{VXWD}) - (\text{pcif} * \text{VIWS})$$

## Egyptian consumer gain is outweighed by producer losses

### Summary of Effects

Effects	Domestic Consumers	Domestic Producers
<b>Positive</b>	Prices decrease for all commodities	Output of non-apparel commodities increased
	Increased employment for unskilled labor	Increased labor force with lower overall labor expenditures
<b>Negative</b>		Import prices remain relatively constant, but export prices sharply decline
		Demand for domestic goods declined over most sectors