



Palestine Economic Policy Research Institute

# **Palestinian-Egyptian Foreign Trade : Reality and Future Prospects**

Prepared By :  
**Misyef J. Misyef**

Supervised By :  
**Mahmoud El-Jafari**

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3. The internal scientific committee supervises the work of the researcher or team of researchers through periodic progress reports.
4. The initial draft of the study is reviewed by the scientific committee for objective content-related amendments to be added to the second draft.
5. The second draft is then submitted for evaluation in accordance with the terms of reference to two or three external academic experts specializing in the subject. Provided that there is a positive evaluation by at least two experts, the researcher is asked to review the study taking into consideration the objective recommendations of these experts.
6. The study is presented for discussion at a public workshop attended by academics, researchers, and representatives from public and private sector institutions related to the subject of the research.
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8. Research papers written in English are translated into Arabic and published in both languages. An executive summary in English is attached to research papers written in Arabic.

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## **Abstract**

This study is the first to deal, in details, with the Palestinian-Egyptian trade relations. In general, the main objectives of this study are to assess and diagnose the present status of trade ties, and to project prospects of their growth and economic development. The study has also come up with practical recommendations for decision-makers, to enhance and increase trade relations between the two countries, which are crucial for their economic and political interests.

The Jordanian-Egyptian model is used to project the potential and real prospects of Palestinian trade with Egypt. This study deals with Palestinian-Egyptian foreign trade, on one hand, and Jordanian-Egyptian trade, on the other. It presents an overview of merchandise trade flows between Egypt and Jordan in recent years. It also analyzes the overall trends of the Egyptian-Palestinian trade with particular emphasis on the recent period of 1995-1998, during which, it became practically possible for Palestine to forge economic and trade relations in the wake of the political settlement process.

The study focuses on the improvement of the Palestinian trade with Egypt, given the need of restructuring the external trade sector to join the Arab free trade area. Moreover, the study surveys the potentials of merchandize trade flows at the macro level, and the level of nine groups of goods based on trade similarity coefficient indicators. Trade similarity coefficients have been calculated to determine the minimum, maximum and expected limits, compared with the actual level of the flow of goods at the macro and micro levels between Egypt and Jordan. Due to the similarities between the Jordanian and Palestinian economies, the potentials of Egyptian-Palestinian trade will be similar to the Egyptian-Jordanian trade.

The study applies quantitative analytical methods to evaluate the trade relations between Palestine and Egypt. Trade relationships between Egypt and Jordan are used as a model in the evaluation of trade relations between Egypt and Palestine owing to the availability of sufficient data about mutual trade between the two countries.

In addition, the economic model has been specified to estimate demand equations for Jordanian imports from Egypt and Jordanian supply equations of exports to Egypt in the long run, to predict the level of



Palestinian imports and exports from, and to Egypt. Several findings have been drawn from the gravity equations of export supply and import demand, and the trade similarity coefficients. These results have proved that there is a potential for cooperation and the adoption of appropriate trade policies, which will help the development of Palestinian trade relations regionally and internationally.

This study has revealed a number of results that could be used to promote trade relations between Egypt and Palestine. These results can be summarized in the following:

1. Although the potential for exports to Egypt is very limited under current circumstances, there is a better opportunity for an increase in the volume of mutual trade, if all obstacles, customs and non-customs restrictions are removed. In the context of free trade relations, Egypt can absorb a minimum of 20% of Palestinian total exports and a maximum of 52% of these exports (87-273 million U.S. dollars). This does not have significant influence on Egyptian imports given that the Palestinian exports to Egypt, at the maximum, will not exceed 1% of the total value of Egyptian imports. However, these percentages and volumes are marginal to Egypt but substantial to Palestine.
2. The analysis has also shown that Palestine can import 12%-35% of the total Palestinian imports from Egypt. There is also a possibility of diversifying the Palestinian imports of raw materials in order to reduce the costs of production. The value of Palestinian raw material imports appropriates to a minimum average of \$272 million and a maximum of \$780 million.
3. At the micro level, the results revealed trade similarity coefficients averages among the groups of goods. The two countries may increase mutual trade, and the groups of goods may be classified into the following:
  - a. Manufactured and classified products such as textiles, cotton and foot wear: Palestine can import 60% of Egypt's exports of footwear products, while it can export to Egypt the same products but of different brands and quality.
  - b. Chemical materials: this group presents a high potential for imports and an opportunity for exporting tanning, tinted and detergent materials to Egypt.
  - c. Fuel and energy: Egypt enjoys a comparative advantage in this sector. This sector has a very high potential for exports. At

present, Palestine depends on Israel to meet its needs. Israel actually imports these products from Egypt and then re-exports them to the Palestinian market, which makes direct trade more beneficial for both Palestinian and Egyptian sides. As for other goods such as foodstuff, beverages, tobacco and raw materials there is only a limited prospect for their flow between the two countries.

4. Pertaining to trade similarity coefficients averages between Jordan and Egypt, at the macro level, the study shows that there are obvious potentials for the increase of mutual trade between the two countries. Jordan may import 13%-36% of its total imports from Egypt. On the other hand, Jordan may export 25%-51% of its total exports to Egypt. This result is very close to prospects of the flow of goods between Palestine and Egypt at the macro level.
5. Similarity trade coefficients at the micro level between Egypt and Jordan, point out that each country enjoys a comparative advantage over the other pertaining to the production of different products. In this regard, Jordan may increase the possibility of exporting to Egypt five groups of products: raw materials, vegetable oils and olive oil, chemical materials and a variety of manufactured products. Egypt can increase its exports to Jordan from three groups: beverages and tobacco, foodstuff, fuel and energy. For the rest of the groups, the possibility of increasing export opportunities is weak for both countries because they both depend on importing them from abroad.
6. Data analysis indicates some evidence that Jordan had the potential of increasing its exports to the Egyptian market more than Egypt's ability to export to the Jordanian market given that liberalization of trade is enforced and all restrictions and obstacles are removed. The obvious difference in their economies, in terms of size, supports this argument.
7. The results of the estimated gravitating model of the Jordanian export supply to Egypt, in the short run, show that the Egyptian GDP has a strong influence on the flow of Jordanian exports to Egypt. These exports are more responsive to changes in the Egyptian GDP compared with changes in other economic factors such as the Jordanian GDP and the Egyptian monetary policy.
8. Concerning the flow of Egyptian products to Jordan, the study shows that both the Egyptian and Jordanian GDPs, and the level of export prices are significant factors that affect changes in the flow of Egyptian goods to Jordanian markets. On the other hand, there is clear evidence of economic and non-economic factors influencing the

Jordanian imports from Egypt and to a lower extent, the Jordanian exports to Egypt. Restrictions, customs and non-customs obstacles, lack of sufficient trade services and high transportation costs, are all examples of these factors.

9. The results of the study, pertaining to Jordanian-Egyptian trade relations, can be applied to the Egyptian-Palestinian trade relations. There is some benefits from gravity equations of Jordanian export supply and import demand with Egypt. This will help in identifying the factors influencing the flow of goods between Palestine and Egypt. Based on those results, one could conclude that the flow of goods between Egypt and Palestine depends on the two countries' GDPs and export and import index price in the case of importing from Egypt.
10. The study has also revealed a number of findings and some clear indicators as follows:
  - A. When using gravity trade model for the Jordanian supply of exports to Egypt and import demands from Egypt, it is found that the rate of the real estimated mutual trade fails to exceed 1.0% of the total volume of trade for both countries. This amounts to \$120 million as opposed to approx. \$25 billion.  
When trade similarity coefficients are used, it is found that the rate of mutual trade does not exceed 3% of total trade for both countries (\$1.2 billion as opposed to \$25 billion). This clearly shows that the volume of trade would double ten times compared to the current situation provided that customs and non-customs restrictions and obstacles are removed in the context of free mutual trade between the two countries. These results show that the current and future situation, pertaining to the flow of goods between Palestine and Egypt, will not differ from the situation of mutual trade between Jordan and Egypt. The limits and scope of Palestinian-Egyptian trade will not exceed the limits of Jordanian-Egyptian trade. The Egyptian-Palestinian trade will not exceed 80% of the Egyptian-Jordanian trade.

Based on the results of this study, a number of recommendations should be drawn:

- ✧ Given the volume of prospected flows which surpass the real flows,

there is a need to free trade at a wider scale, remove all restrictions and obstacles, and facilitate exporting and importing procedures to decrease the flow movement of goods between Egypt and Palestine in particular, but also among Arab countries.

- ✧ In order to tear Israel's monopoly on Palestinian foreign trade, both Palestinians and Egyptians need to cooperate and take necessary measures, given that it is serving both sides' interest to do so.
- ✧ The coordination between the two countries in the areas of production and marketing is required to improve trade relations, where Palestine can benefit from Egyptian infrastructure and technology. The coordination will not only enhance the mutual trade, but also the Palestinian-Egyptian trade with foreign markets.
- ✧ Joint projects are a preferable approach in order to enhance the integration and competitive advantage in both local and foreign Egyptian and Palestinian markets. This will help in substituting part of the countries' imports.
- ✧ Joint projects will also encourage investment and promote border trade between the two countries. Gas stations and oil refineries, pharmaceutical plants, quarry and marble factories, are cases of possible successful cooperation between both sides. This will assist increasing the productive capacity and creating additional job opportunities. It will also enhance internal trade and improve competitiveness of the exports of Palestinian and Egyptian products in the international markets.
- ✧ In this respect, Egypt may export to Palestine a large part of manufactured and classified products and import the other part, from the same set of products, from Palestine. Moreover, Egypt may export pharmaceutical and chemical materials to Palestine and import a large amount of detergent, tanning and coloring materials from Palestine. In doing so, it is possible to restructure these industries through promotion of investments and coordination of manufacturing policies, which gradually prepare both countries to the trade liberalization.
- ✧ Trade in the energy and fuel, products are necessary, sensitive and important for the Palestinian economy. Palestine has to import energy and fuel products directly from Egypt instead of importing these products via Israel. Palestine can import 90% of its needs of these products from Egypt. This also applies to other important products

like raw materials and other products that Israel is re-exporting to the Palestinian market. These changes, in the course of trade, require a high level of cooperation and coordinated economic and trade policies, which needs a lot of effort.

