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MENA Programme: Egypt Dialogue Workshop Report

Egypt's Economy in the Transitional Period

September 2011

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INTRODUCTION

This report is a summary of discussions that took place at a workshop held in Cairo on 28 September 2011. Part of Chatham House's 'Egypt In Transition' project, the event brought together a group of political activists from different movements, economists, business people, NGO representatives, journalists and academics. The day's discussion focused on aspects of Egypt's economic policy in the transitional period, paying particular attention to social justice and job creation.

Key findings that emerged from the workshop included:

- There is a need to address issues of corruption and crony capitalism, both of which are seen to have been endemic in Mubarak-era policies.
- There is also a desire for greater regionalism in Egypt's economic policy. An economic union with other countries experiencing political transition could involve free movement of labour and capital, and a more integrated trade policy.
- The establishment of a set of rights and obligations for investors, consumers and workers would represent an important step towards creating a more just business environment, and should also contribute towards improved labour productivity.
- New mechanisms for collecting and publishing transparent financial information are strongly needed. These could be established through legislation that encourages greater information transparency.
- Other recommendations included: setting a minimum wage; focusing economic policy on the achievement of social justice; reforming the education system; and finding ways to make the public sector more efficient.

The meeting was held under the Chatham House Rule and the views expressed are those of the participants. The following summary is intended to serve as an *aide-mémoire* to those who took part and to provide a general summary of discussions for those who did not.

The Chatham House Rule

'When a meeting, or part thereof, is held under the Chatham House Rule, participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed.'

THE ECONOMIC POLICY DEBATE

Assessing the economic policies of the previous government, the first session debated whether the Mubarak regime had adopted too much of a free market approach, or if indeed it did not go far enough in liberalising the market and creating a level playing field.

The last few years of Hosni Mubarak's rule were characterised by high economic growth rates with average GDP growth of six per cent, and increased foreign direct investment. Participants attributed this largely to the economic policies of a technocratic cabinet headed by former Prime Minister Ahmed Nazif. The cabinet's reforms were argued to have created an environment that was favourable to business and attractive to investors. This helped propel Egypt into the international spotlight as an emerging market of choice. On this basis, some of the participants felt that a number of the financial-sector reforms had been praiseworthy. Reforms to the banking sector were cited as an example of a successful policy which is now bearing fruit in the transitional period.

However, one important complaint was repeatedly raised: high growth rates did not lead to an equitable distribution of wealth between rich and poor. In fact, there were marked indications of increasing inequality. Liberalization policies and free market reforms, involving a diminished role for the state, were said to have failed to meet Egypt's developmental needs. One speaker said that only ten per cent of Egyptians have bank accounts today, a figure that has changed little since 2005.

'Bread, freedom and social justice' was one of the key slogans from Egypt's revolution. This highlighted the importance of economic development – or the lack thereof – in instigating high levels of resentment against the former regime. Participants saw a reappraisal of economic policy as a crucial step towards meeting the demands of the revolution.

Corruption and crony capitalism

The neoliberal economic policies of the Mubarak era were seen as closely tied to corruption and crony capitalism. According to one participant, the result was a systematic asset-stripping of the nation for personal interests. Privatization programmes were cited as a key example of policies that enriched a small group of elites at the expense of society as a whole, bolstering the strength of President Mubarak's son Gamal and his business allies. Since this occurred under the watch of figures such as Finance Minister Boutros Ghali and Investments Minister Mahmoud Mohieldin – both of whom have close ties with the IMF and World Bank – participants also argued that the reputation of technocrats and international institutions associated with the 'Washington Consensus'¹ had been tainted.

Two questions arose out of this discussion: how far does Egypt go in punishing those suspected of corruption, and what impact will the renegotiation of business deals signed under the former government have on investor confidence in the months ahead? In addition, participants emphasized that there was an important distinction to be drawn between 'fat cat' and low-level corruption. A new framework of regulation for businesses and the proper implementation of the rule of law was seen as an important step towards restoring transparency and trust in both the public and the private sector.

A new plan for economic development

There was disappointment at the transitional government's lack of vision or appetite to take short-term proactive steps towards reform. One participant called for nothing less than a 'revolution in the economy'.

The creation and implementation of a long-term economic development plan was a popular suggestion. This should be based on Egypt's competitive advantages, which include geographic location and resources. It should meet a number of requirements including increased levels of productivity in the workforce and reductions in public spending, and facilitate the development of small and medium-sized enterprises (SMEs). In addition, it was argued that these reforms cannot be effective without serious reform of an education system which is currently failing to meet the demands of the labour market.

¹ This term usually describes a set of ten relatively specific economic policy prescriptions that he considered constituted the 'standard' reform package promoted for developing economies. These have been advocated by Washington-based institutions such as the IMF, World Bank, and the US Treasury Department.

It is important to establish a clearer picture of the financial dealings of the previous government. Although all participants recognized that a large amount of money had been lost to corruption and private investment, there was no consensus on the scale of this loss. In order for the proposed economic plan to be built on a sound basis, a more effective method of tracking and measuring the assets of the previous regime is required. Such an approach also needs to be used when assessing Egypt's resource wealth. Here again, there was little agreement on the value or extent of these resources.

A number of proposals were put forward for the maximization of Egypt's resources, once they have been more accurately mapped. These included the revision of business contracts relating to privatization or tourism.

Political transparency

Economic issues cannot be isolated from their political context. It was suggested that the process of electing a new government would bestow legitimacy on those who take power, since they would be seen as representatives of the people. This would lead to greater accountability and transparency in public institutions, a development with important implications for the business community. A more open and transparent democratic process, it was argued, would benefit all economic actors: workers, investors and consumers.

The transition to civilian rule was seen as particularly important to the process of achieving greater transparency. Since checks and balances are a key feature of democratic systems, it was suggested that Egypt could not hope to see a more accountable government until free and fair elections had taken place.

Economic transparency

There is a need for greater accuracy and transparency in the economic information available to the public. There are still questions about the true level of unemployment, especially outside Cairo, and about the activities of the large number of unemployed graduates. In addition, there was limited awareness with regard to the current requirements of the labour market. It was argued that these must be established before a credible economic development plan can be developed.

Emphasis was placed on the need for a new information transparency law. At the time of the workshop, a group of journalists, activists and other members of civil society were in the process of drafting one such piece of legislation. This has yet to be passed by the Supreme Council of the Armed Forces (SCAF). This military council continues to be criticised for a lack of transparency in its operations, a concern that has affected the confidence of both investors and Egyptian citizens.

PRACTICAL RECOMMENDATIONS FOR POLICY

For this session participants formed smaller groups, focusing on producing recommendations. The discussions were wide-ranging and could not tackle all the issues participants wanted to cover. This was perhaps symptomatic of the scale and depth of the political problems currently facing Egypt. However, conversations centred on seven main themes: regionalism, education, a minimum wage, land redistribution, the future of the public sector, social justice, and rights and obligations of workers and employers. Participants argued that future job creation policies would be able to achieve greater focus through discussions such as these, which identified the sectors that Egypt wants to develop and in which it can be competitive.

Regionalism

Given that three neighbouring countries have felt the effects of the Arab Spring, it was suggested that this could be turned to the advantage of Egypt's economy. The aim would be an economic union, similar to that of the European Union, for the countries of the Arab revolutions involving the free movement of labour, capital and trade. One participant said there should be a regional agency to help facilitate this. Whatever the practical realities, the underlying assumption is that a more proactive regional policy could affect job creation and economic growth in a positive manner.

Education

The need to match the education system with the requirements of the labour market was a popular topic of discussion. Since Egypt's human capital was cited as one of its greatest resources, it was suggested that greater investment in this sector would create more employment opportunities. One participant suggested a French-style 'hot-house' of elite schools which could be tasked with creating a new generation of leaders. A number of speakers emphasized the need to foster a programme of job creation through training and apprenticeships. They stressed the need to foster the perception that this was a positive life-choice and that a university degree was not suitable for all.

A minimum wage

One of the day's key debates centred on the issue of a minimum wage. A number of participants spoke in favour of its introduction, presenting it as an

example of a concrete policy that could contribute to the reduction of poverty levels and the achievement of greater social justice. It was also suggested that the introduction of a minimum wage could reduce low-level corruption. Since salaries in the public, private and informal sector have tended to be very low, it was said that some saw corruption as a necessary evil in order to supplement incomes to a level that would support their families. A minimum wage could reduce this problem by raising household incomes through legal means. However, this recommendation met with opposition from a number of those present, especially representatives from the business community. Concerns were raised over the impact that a minimum wage might have on Egypt's competitiveness in key industries such as manufacturing. This difference of opinions within the group suggests that there is a clear need to examine this issue further, and to seek a way of increasing wages without undermining competitiveness.

Land redistribution

The redistribution of land was considered to be particularly important. Small farms were said to be more efficient than big ones, as the latter can prevent the development of a local market to absorb local production. One participant suggested the creation of a mapping system. This would chart the production strengths of local communities and allow resources to be matched with producers and consumers.

Public sector

There was general agreement on the need to streamline the public sector, reducing its size and cutting its expenditure. However, although many portrayed it as bloated and inefficient in its current form – for example, the state media apparatus was said to employ forty two thousand workers, in comparison to the BBC's nine thousand – it was seen as an institution that can play a vital role in Egypt's economic recovery.

Careful thought would need to be paid to some sectors, particularly the security services. Concerns were raised about the possibility of those who had received weapons training suddenly finding themselves unemployed. These individuals must be reintegrated into civil society as a point of high priority.

The concept of a 'management buy-in' was introduced as another way to increase the efficiency of the public sector. It was said that this approach,

whereby external actors raise the necessary funds to buy a company and then become its new management, would help improve the working environment and attractiveness of public institutions for jobs. Additional suggestions included large-scale infrastructure projects that will stimulate economic growth through job creation, the linking of SMEs to industrial incubators, and more public-private partnerships.

Social justice

One speaker made the point that a hegemonic world economic system will undoubtedly create imbalances, especially at a local level. They argued that the current moment represents a great opportunity for Egypt to redress some of those inequalities and bring social justice into the centre of its economic thinking.

The Brazilian social and economic model was cited as a source of inspiration for Egypt. There, localized structures have been created and development has been placed at the centre of national economic strategy. It was suggested that there was scope for greater cooperation between Latin America and Egypt. The experiences of the former in making the transition from military rule to a more open political system with a healthy economy could be used to make a business case for democracy.

Other suggestions focused on the potential for a more top-down approach to economic reform, especially in setting up rules to create a level playing field. From this perspective, social justice is part of the wider issue of human rights and based on equalities. To this end, social services should be set up in order to serve the whole population. There was a consensus over the previous regime's failure to deliver on social justice at a number of levels, including on the delivery of services, and the protection of workers' rights.

It is important for people to feel included in the economic process, and for this to be the case they need an appreciation of economic concepts. A programme of civic education was proposed as a tool for achieving this. Participants also placed a high priority on media reform, arguing that better and more responsible reporting would play a role in raising awareness of economic issues.

Rights and obligations

Egypt needs to reach a consensus about what basic rights are and how they should be protected. The need to establish a set of rights and obligations for investors, consumers and workers was also discussed. The previous government focused mainly on the rights of investors without enforcing obligations. One participant argued the need for business people to acknowledge their social role in the community, and their obligation to train workers. Passing a law to permit and protect independent trade unions would also help improve labour-capital relations.

CONCLUSION

As Egypt enters a new phase of its transition, there is a pressing need for the military to define a clearly articulated transition plan, and to alleviate the current sense of uncertainty and risk which weighs heavily on the country's economic prospects. In addition, there is general agreement regarding the necessity of a new economic development plan identifying a list of concrete priorities for reform, and establishing the expected timescale within which these measures can be implemented.

Several new approaches would be highly beneficial to the creation of a fairer and more open economy. These include a transparent review of the state budget, buttressed by healthy debate on the establishment of a minimum and maximum wage, as well as increased spending on health, education and housing. The achievement of greater social justice will require all citizens to be treated equally before the law, regardless of wealth or position. A review of taxation policies will also contribute to this endeavour. Finally, it is important that both workers and employers are empowered through a clear understanding of their rights and obligations towards one another. These must be identified and then protected by the state.

ABOUT THE EGYPT DIALOGUE PROJECT

Egypt is at a critical stage of its post-revolutionary evolution, when it is important that debate continues on a range of issues of concern to a variety of Egyptian constituencies. A series of workshops convened by the MENA programme in Cairo will address elections, moving from military to civilian rule, political alliances, UK and Western policy, the economy and the role of the media. A core aim of this project is to increase political inclusion: to draw previously peripheral or suppressed voices into national and international policy dialogues.

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ABOUT THE MENA PROGRAMME

The Middle East and North Africa Programme, headed by Dr Claire Spencer, undertakes high-profile research and projects on political, economic and security issues affecting the Middle East and North Africa. To complement our research, the MENA Programme runs a variety of discussion groups, roundtable meetings, workshops and public events which seek to inform and broaden current debates about the region and about UK and international policy. We also produce a range of publicly available reports, books and papers.

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