Impact of the economic crisis on trade, foreign investment, and employment in Egypt

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Overview

1. The crisis in Egypt – some basic facts
2. Trade policy and trade flows
3. Investment policy and FDI inflows
4. Employment policy and the labour market
   (1) Labour market challenges before the crisis
   (2) The labour market during the crisis
5. Outlook and recommendations
1. The crisis in Egypt

- GDP growth: 7.2% in 2007/08, but 5.8% in Q1 2008/09 and 4.1% in Q2 2008/09
- A *real* sector crisis
- Consequences:
  1. Increase of unemployment
  2. Change in the composition of the working age population
- Transmission channels:
  1. Exports
  2. FDI inflows
  3. Remittances
  4. Official transfers
The transmission channels in comparison

Decrease of foreign exchange inflows (US$ billion),
2007/08 to 2008/09

- Merchandise exports
- Service exports
- FDI inflows
- Remittances
- Official transfers

Sources: Central Bank of Egypt, Balance of payments data, CAPMAS (FDI)
Impact of the economic crisis on the value of exports, countries covered by ILO rapid impact assessments

(Index, 1st half of 2007=100)

Sources: National Authorities, except for Liberia: Eurostat and US International Trade Commission

*) Exports to the US and EU only, based on mirror statistics
2. Trade policy and trade flows

- Egypt is a WTO member
- Considerable unilateral tariff reduction in 2005
- Large network of Free-Trade Agreements: EU (2004), EFTA (2004), GAFTA, Turkey, Comesa
- QIZ-Agreement with the U.S. and Israel (2005)
- Little use of contingency measures
- Problems: high average MFN tariffs remain, complexities in tariff system, customs procedures
2. Trade policy and trade flows

- Trade liberalization fuelled a strong expansion of trade flows between 2004 and 2008
- driven by finished goods, tourism and natural gas
- falling importance of cotton
Merchandise exports, 2004 and 2008
3. Investment policy and FDI inflows

- Liberal legislation on foreign investment
- But: problems in the business environment (construction permits, enforcing contracts, hiring and dismissing workers, general ease of doing business)
3. Investment policy and FDI inflow

- Investment has been the main growth driver between 2004-08
- High and growing importance of FDI (2003/4: US$ 0.4 billion, 0.5% of GDP 2007/08: US$ 17.8 billion, 8.1% of GDP)
- Strong fall of FDI during the crisis: US$ 12.8 billion in 2008/09
4. Employment policy and the labour market

Labour market challenges *before* the crisis

(1) A rapidly increasing labour force
(2) Low participation of women
(3) Over-employment in the public sector
(4) A large informal economy
(5) Low productivity and wage levels
Labour market challenges *before* the crisis

(6) High unemployment rates, especially for women and the young

(7) Mismatches between supply and demand

(8) Difficulties for small and medium-sized enterprises

(9) Weaknesses in other components of decent work (social dialogue, social protection)
The labour market *during* the crisis

- Increase of the unemployment rate from 8.4% (June 2008) to 9.4% (June 2009)
- But: increase of female unemployment (18.8% to 23.2%) and decrease of male unemployment (5.4% to 5.3%)
- Low increase of labour force (400,000)
- Job losses mainly in sectors that are (1) employment-intensive and (2) export-oriented
<table>
<thead>
<tr>
<th>Sector</th>
<th>Contribution to GDP in 2007/08</th>
<th>Importance in trade, export decline during crisis</th>
<th>Employment elasticity&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Estimated crisis impact on employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture and food industries</td>
<td>High, some 13% of GDP</td>
<td>Limited, as production is mainly for domestic consumption</td>
<td>High, with high importance of the sector for overall employment</td>
<td>Limited, as the sector has been sustained by domestic demand</td>
</tr>
<tr>
<td>Oil and natural gas production (incl. refining)</td>
<td>High, 16.4% of GDP</td>
<td>High, very strong declines in export revenues</td>
<td>Low</td>
<td>Limited, due to low importance for overall employment</td>
</tr>
<tr>
<td>Textiles and clothing</td>
<td>Medium, 2.9% of GDP</td>
<td>High, strong declines in export revenues</td>
<td>High</td>
<td>High, with massive lay-offs</td>
</tr>
<tr>
<td>Construction</td>
<td>Medium, 4.3% of GDP</td>
<td>Low</td>
<td>High</td>
<td>Limited, as the sector has been sustained by domestic demand and is the main beneficiary of the fiscal stimulus package</td>
</tr>
<tr>
<td>Suez Canal</td>
<td>Medium, 3.6%</td>
<td>High, strong declines in export revenues</td>
<td>Low</td>
<td>Limited due to low overall employment</td>
</tr>
<tr>
<td>Tourism</td>
<td>Medium, 3.8% of GDP</td>
<td>High, strong declines in export revenues</td>
<td>High</td>
<td>High, with massive lay-offs</td>
</tr>
<tr>
<td>Financial services</td>
<td>Medium, 4.1% of GDP</td>
<td>Limited</td>
<td>Medium</td>
<td>Limited due to high inward orientation</td>
</tr>
<tr>
<td>Information and communication technology</td>
<td>Medium, some 4% of GDP</td>
<td>Limited</td>
<td>Medium</td>
<td>Limited, due to high sectoral growth</td>
</tr>
</tbody>
</table>
## 5. Outlook and recommendations

### Unemployment and adjustment after financial crises

<table>
<thead>
<tr>
<th>Country</th>
<th>Pre-crisis unemployment 1 year average</th>
<th>Peak unemployment</th>
<th>Unemployment back at pre-crisis level +/- 1% (time since beginning of crisis)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thailand  (1997)</td>
<td>1.8 %</td>
<td>5.3%</td>
<td>2.4% (3.5 years)</td>
</tr>
<tr>
<td>South Korea (1997)</td>
<td>2.4 %</td>
<td>8.5%</td>
<td>3.2% (4.75 years)</td>
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<tr>
<td>Russia (1998)</td>
<td>11.3%</td>
<td>14.3%</td>
<td>12.3% (1 year)</td>
</tr>
<tr>
<td>Argentina (2001)</td>
<td>15.6%</td>
<td>21.5%</td>
<td>16.3% (2 years)</td>
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<tr>
<td>Ireland (2008)</td>
<td>4.5%</td>
<td>10.3%</td>
<td>??</td>
</tr>
<tr>
<td>Egypt (2008)</td>
<td>8.4%</td>
<td>9.4%</td>
<td>??</td>
</tr>
</tbody>
</table>
5. Outlook and recommendations

- Improve statistics (quality, timeliness, transparency)
- Further trade liberalization
- Improvements in the business environment
- Tackle labour market challenges
- Successful improvements on both sides (trade and labour markets) will strengthen Egypt’s economy and make it more resilient to crises
Thank you for your attention!