



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

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Roundtable on Mitigating the Impact of the Global Economic Crisis on Egypt's  
Economy and Labour Market.  
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# Overview

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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

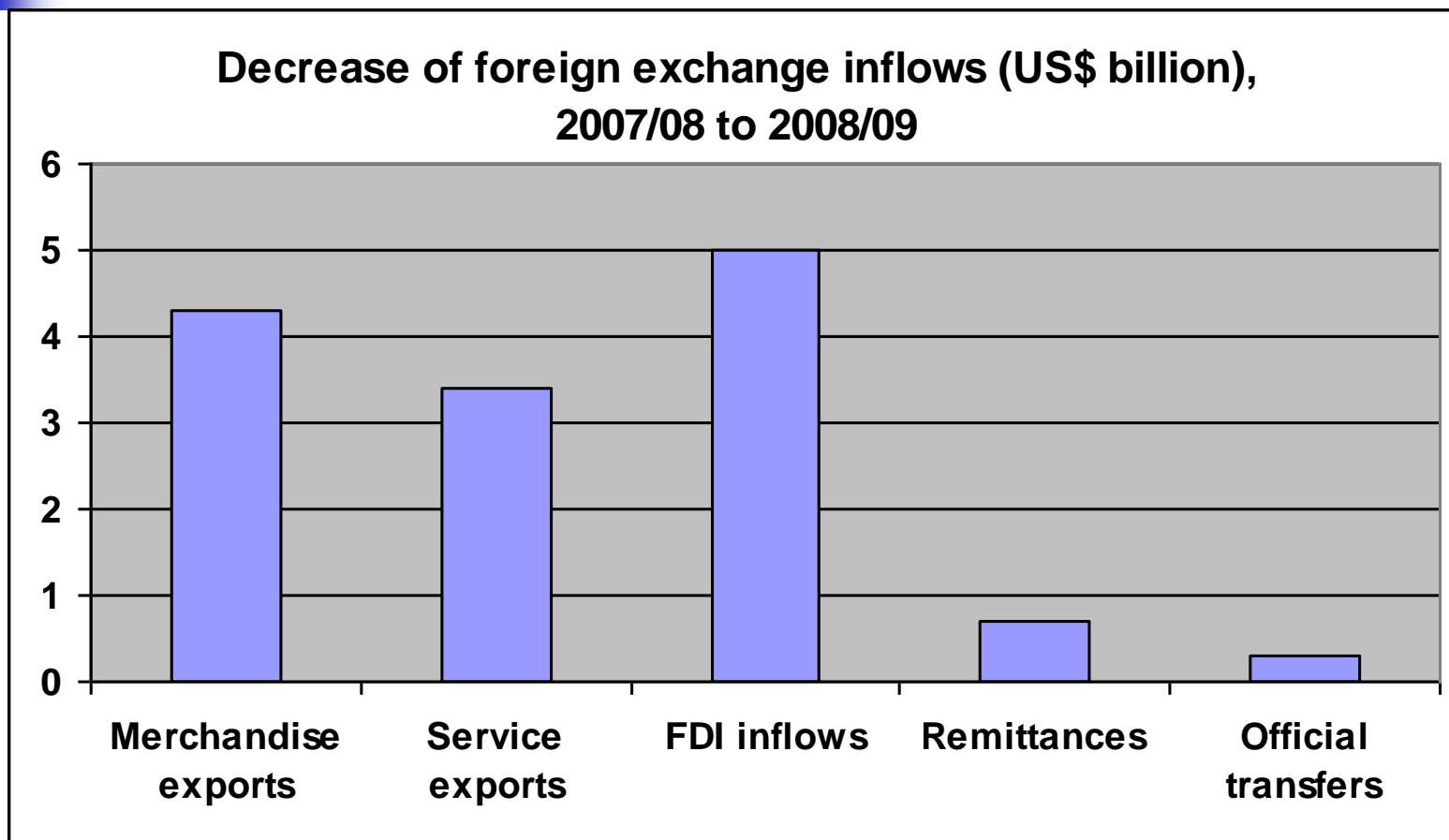


# 1. The crisis in Egypt

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- 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

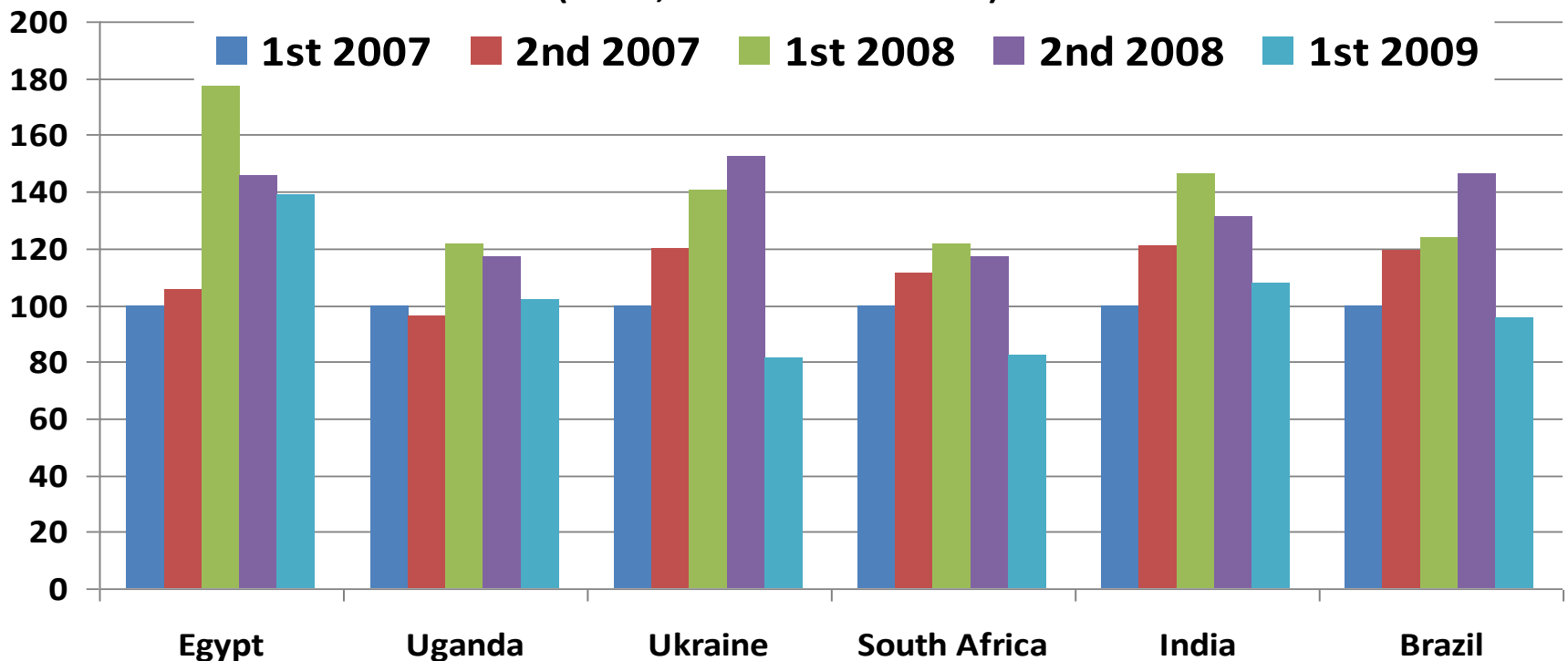
# The transmission channels in comparison



# Egypt in international comparison

## Impact of the economic crisis on the value of exports, countries covered by ILO rapid impact assessments

(Index, 1<sup>st</sup> 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

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- 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

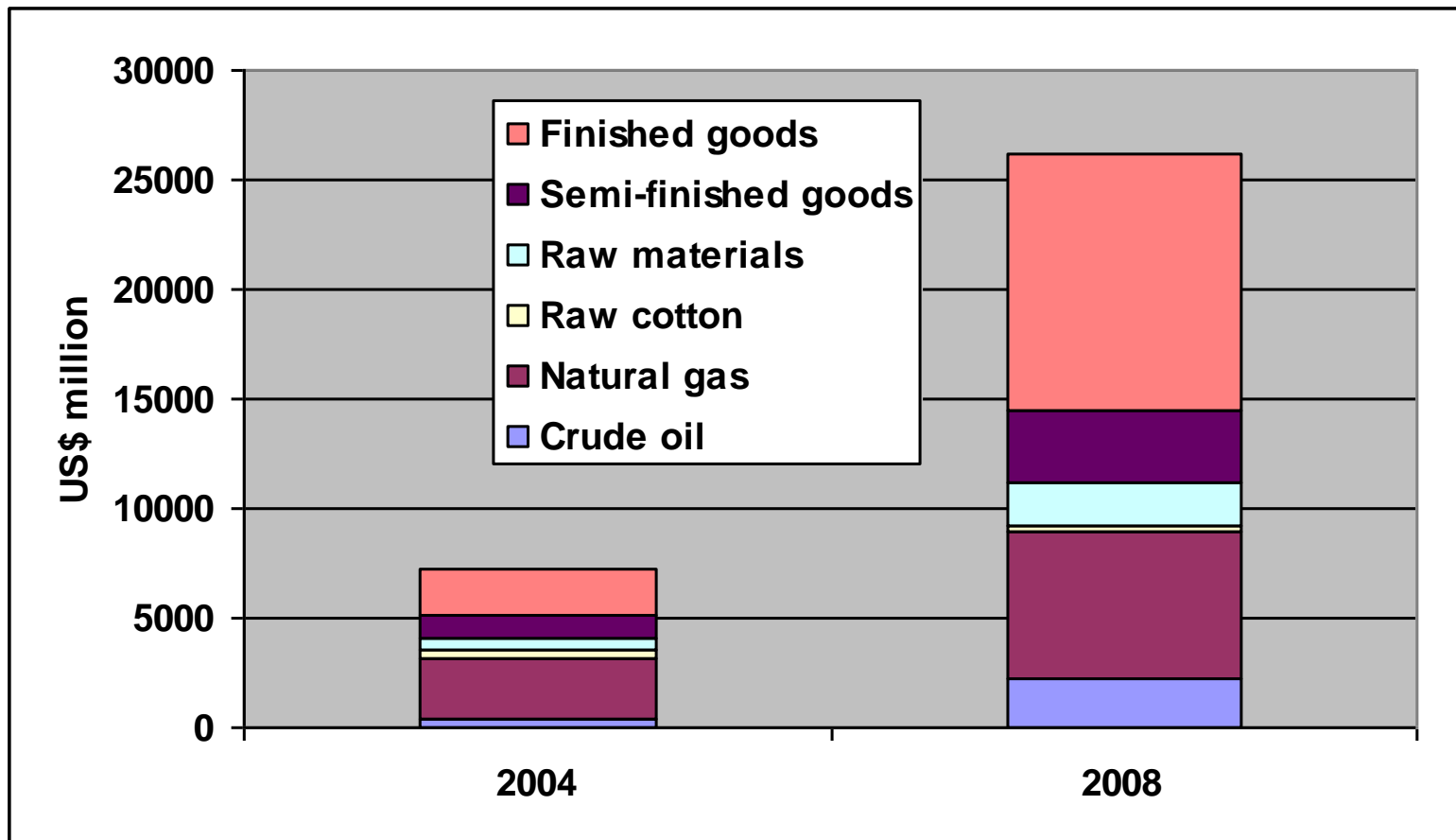


## 2. Trade policy and trade flows

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- 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

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- 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

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- 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**

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- (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**

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- (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

Sector	Contribution to GDP in 2007/08	Importance in trade, export decline during crisis	Employment elasticity <sup>a</sup>	Estimated crisis impact on employment
Agriculture and food industries	High, some 13% of GDP	Limited, as production is mainly for domestic consumption	High, with high importance of the sector for overall employment	Limited, as the sector has been sustained by domestic demand
Oil and natural gas production (incl. refining)	High, 16.4% of GDP	High, very strong declines in export revenues	Low	Limited, due to low importance for overall employment
Textiles and clothing	Medium, 2.9% of GDP	High, strong declines in export revenues	High	High, with massive lay-offs
Construction	Medium, 4.3% of GDP	Low	High	Limited, as the sector has been sustained by domestic demand and is the main beneficiary of the fiscal stimulus package
Suez Canal	Medium, 3.6%	High, strong declines in export revenues	Low	Limited due to low overall employment
Tourism	Medium, 3.8% of GDP	High, strong declines in export revenues	High	High, with massive lay-offs
Financial services	Medium, 4.1% of GDP	Limited	Medium	Limited due to high inward orientation
Information and communication technology	Medium, some 4% of GDP	Limited	Medium	Limited, due to high sectoral growth

# 5. Outlook and recommendations

## Unemployment and adjustment after financial crises

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

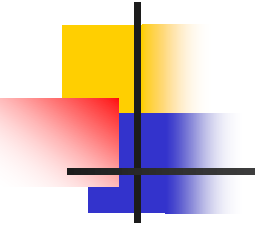


## 5. Outlook and recommendations

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- 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!