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The Impact of Trade and Investment Policies on Productive and Decent Work

Country Report for Egypt

Chahir Zaki
Cairo University and ERF

Héla Miniaoui
International Labour Organization

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List of Abbreviations

ADF	African Development Bank
AFD	Agence Française de Développement
Afreximbank	African Export-Import Bank
BITs	Bilateral Investment Treaties
CAPMAS	Central Agency for Mobilization and Statistics
CBE	Central Bank of Egypt
EBRD	European Bank for Reconstruction and Development
ECA	Egyptian Competition Authority
EFF	Extended Fund Facility
EFTA	European Free Trade Association
EGPC	Egyptian General Petroleum Corporation
EIB	European Investment Bank
EIU	Economist Intelligence Unit
ERF	Economic Research Forum
ETF	European Training Foundation
EU	European Union
FDI	Foreign Direct Investment
FX	Foreign Exchange
GAFI	General Authority for Investment and Free Zones
GOEIC	General Organization for Import and Export Control
GVCs	Global Value Chains
HOS	Heckscher-Ohlin-Samuelson
ICSID	International Centre for Settlement of Investment Disputes
ICT	Information and Communications Technology
IDSC	Egyptian Cabinet's Information and Decision Support Center
IFC	International Finance Corporation
IMF	International Monetary Fund
ITC	International Trade Center
JVs	Joint Ventures
LFS	Labour Force Survey
MENA	Middle East and North Africa
METI	Mainstreaming Employment into Trade and Investment
MSMEDA	Micro, Small and Medium Enterprises Development Agency
MSMEs	Micro, Small and Medium Enterprises
NEP	National Employment Policy
NIB	National Investment Bank
NTBs	Non-Tariff Barriers
NTMs	Non-Tariff Measures
OECD	Organization for Economic Co-operation and Development
RDD	Random Digit Dialing
REER	Real Effective Exchange Rate
RVCs	Regional Value Chains
SCA	Suez Canal Authority
SCZONE	Suez Canal Economic Zone
SMC	Southern Mediterranean Countries
SMEs	Small and Medium Enterprises
SPS	sanitary and phytosanitary measures

TBTs	Technical Barriers to Trade
TFA	Trade Facilitation Agreement
UfM	Union for the Mediterranean
UN SDGs	UN-Sustainable Development Goals
VAT	Value-Added Tax
WTO	World Trade Organization

Executive Summary

Egypt has undertaken stringent reforms to improve macroeconomic aggregates, yet some structural challenges persist. According to data from the Ministry of Planning and Economic Development, although the reforms initiated in FY2016/17 led to a GDP growth from 5.3% to 5.6% in FY2018/19; an overall government deficit/GDP of 8%; and an inflation rate of 5.3% in FY2019/20, debt increased, poverty rates were relatively high, and the investment climate failed to provide enough incentives to private investors. In addition, the unemployment rate declined to 7.5% in Q4 2019/20 from 9.9% a year earlier, but the labour market still suffers several weaknesses such as a decline in employment rates signalling higher discouragement in the job market, as well as a lower social security coverage and access to health insurance, a deterioration in job quality. Moreover, the number of women who are informally employed, and the participation rate of post-secondary and university graduates increased (Amer et al, 2021) amid the mismatch of labour underutilization and overeducation.

While women remain in an unfavourable position in the labour market, precariousness has increased over the last decade. Like many other countries in the Middle East and North Africa (MENA) region, Egypt's labour market shows low participation rates of women. According to official Labour Force Survey (LFS) data, the male participation rate stood at 70.3%, while the female rate reached only 24.4% in FY2018/19. Yet, the overall participation rate among working-age population (15–64) increased by 8% between FY2000/01 and 2010/11 reaching 52%, ahead of going down to its 2000 level. This decline is confirmed for the FY2018/19 (CAPMAS, 2020). This decrease reflects a drop in the male participation rate over the last two decades, while that of females increased slightly between FY2000/01 and 2017/18, from 22.4 to 24.4%. At the sector level, employment is chiefly concentrated in both the services and the agriculture sectors. The latter showed a higher employment rate accounting for 24% of total employment in 2017. The wholesale and retail trade came in second place (22.9%), and the manufacturing sector (17.7%). It is noteworthy that while the unemployment rate has been declining since 2015, precarious jobs (working poverty, absence of legal contracts, pension or health coverage, or under-employment) has dramatically increased (Amer et al., 2021).

At the trade level, while tariffs decreased, non-tariff measures (NTMs) have been imposed alongside a trade policy, that failed to have a remarkable effect on Egypt's export performance. Egypt has joined the World Trade Organization (WTO) since June 1995. It has implemented various reforms targeting trade liberalization. The network of new trade agreements, coupled with the unilateral tariff reductions in 2005, has significantly liberalized Egypt's trade policy. However, NTMs, behind-the-border measures and excessive red tape hindered exports and imports. Moreover, while tariffs in the manufacturing sector decreased up to 6% in FY 2019/20, the primary sector reported a rise in tariffs from 5.1% in FY2016/17 to 19.5% in FY2019/20. To streamline trade, the Egyptian Customs Authority launched the NAFEZA system (Window in Arabic) as the National Single Window for Foreign Trade Facilitation. Moreover, a new export subsidies scheme has been recently announced, with a special focus on some sectors targeting exporters in the automotive, ceramics, pharmaceuticals, electronics, and chemicals industries.

Three main transmission channels have been identified in the literature through which trade policies can play a pivotal role in boosting economic growth and fostering sustainable development. First, trade can increase employment rates through a reshuffle of the factors of production in favour of sectors that have a comparative advantage. This will, in turn, create jobs in these sectors, but destroy jobs in other industries. In the long run, the efficiency gains arising from trade liberalization are expected to increase employment rates, thanks to more efficient production techniques in the country. Second, trade liberalization can increase demand for women and blue-collar workers (depending on the comparative advantage of the country), reducing inequality on the gender and the skill levels. Third, a strand of literature shows that more trade liberalization might help improve job quality, reduce informal employment rates and increase women employment in some sectors, such as the textiles and ready-made garments.

Egypt's trade and Foreign Direct Investment (FDI) remain relatively focused on oil and capital-intensive industries, despite slight diversification with disappointing implications on jobs. Mineral fuels and mineral oil are Egypt's top export (21%), followed by natural or cultured pearls (8%), plastics (6%), electrical machinery (6%), edible fruits (5%) and fertilizers (4%). At the FDI level, more than 70% of net FDIs are concentrated in the oil sector, compared to just 4% in manufacturing. Therefore, FDIs did not much contribute to the target technology transfer, job creation or Small and

Medium Enterprises (SMEs) development. Attracting more FDIs to the manufacturing sector is a key priority, which will require better institutional quality and an improved investment climate. This should be prioritized over the recent focus on "megaprojects" mainly in transportation and urbanisation.

Agricultural, electrical and electronic products and chemicals are promising export potentials for Egypt. While chemicals make up 18% of Egypt's exports, its untapped potential is estimated at 61% of total export potential. The horticulture sector has a lower contribution of 14% and a slightly lower untapped potential. Other sectors have a higher untapped potential and are currently among the priority sectors of the government (especially electrical appliances and electronics, machinery, and vehicles). At the destination level, Egypt's unrealized potential amounts to 63%, with a great potential in African countries. This is line with the recent developments and the political momentum in Africa since the African Continental Free Trade Area (AfCFTA) agreement has come into effect in January 2021.

SMEs significantly contribute to Egypt's economy but hurdles remain. According to the World Bank Enterprise Surveys **(WBES)** (2020), small enterprises account for the largest number of firms in Egypt with 89%, while medium and large enterprises represent 10% and 1%, respectively. At the sector level, most of small enterprises are concentrated in the services sector (46%), followed by the food industry (13%) and wood products (10%). A similar pattern is observed for medium enterprises in addition to the textiles sector that includes 10% of the total number of medium enterprises. Large enterprises have a different structure, given that only 19% are operating in the services sector, followed by 14% in textiles, 11% in food, 9% in petroleum and 8% in chemicals. During the pandemic, using the International Labour Organization (ILO)/Economic Research Forum (ERF) COVID Monitor, both exporting and non-exporting SMEs have experienced a decrease in their revenues of 74% and 78%, respectively.

Some reforms have been recently undertaken on industrial and trade levels. The Ministry of Trade and Industry has issued a strategy to improve the industrial competitiveness of the Egyptian economy in 2017. Second, in line with "Egypt's Vision 2030", a new strategy has been developed by focusing on some priority industries that include tech-intensive manufacturing, agriculture, and information and communications technology (ICT). Third, in January 2021, the Ministry of Planning and Economic Development has launched the "Decent Life" initiative in the poorest and most vulnerable villages to increase their access to basic services and help establish micro-projects. In April 2021, the Ministry of Planning launched a structural reform program to enhance the efficiency of the labour market, and technical and vocational education and training. Moreover, it identified several dimensions required for the development of the institutional framework in order to promote the private sector role. More specifically, it targets the creation of a supportive and enabling environment for competition, facilitating and developing trade by removing obstacles, and upgrading the transport and logistics sectors. Finally, in order to develop the vocational education system, the Ministry of Education and Technical Education is, currently, enlisting the private sector to invest in 100 new vocational schools by 2030.

Several reforms are needed to make trade and investment policy more employment friendly. At the institutional level, the trade and investment policy making seems to be less coordinated, with some redundancies between different institutions. The private sector and social partners are not closely involved. A broad mismatch is observed between investment and trade policies in order to promote high value-added and labor-intensive sectors, linked to high global demand. To allow competition, there is a need to develop a transparent state ownership policy and governance framework. Moreover, laws exemptions and tax breaks should be limited for state actors.

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Dr. Chahir Zaki is an Egyptian author and consultant. Currently, he serves as Professor of Economics at the Faculty of Economics and Political Science at Cairo University (FEPS – CU). In this position, Chahir teaches and conducts research on trade policy and macroeconomics. He is also the Director of the French Section at the Faculty. Dr. Chahir works also as part-time Lead Economist for the ERF (Cairo, Egypt) and as consultant for several international organizations, including the World Bank, the ILO and the International Trade Center (ITC). Chahir is also the director of Egypt's pole of the Euro-Mediterranean and African Network for Economic Studies (EMANES). He holds a B.A. in Economics from the FEPS - CU, an M.A. and a Ph.D. in Economics from Université Paris 1 Panthéon-Sorbonne. He has written numerous studies and papers published in refereed journals on international trade, trade policy, trade in services, applied economics and macroeconomic modelling.

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About METI Programme

Mainstreaming Employment into Trade and Investment (METI) is a programme funded by the European Commission and implemented by the ILO. METI aims to enable policymakers in the MENA region to incorporate an employment perspective in trade and investment policies to support the design and implementation of investment strategies that optimize the quantity and quality of employment opportunities in the region. These objectives are the most urgent in the context of post-COVID-19 recovery. The programme is facilitating the operationalization of the EU External Investment Plan, which aims to support the inclusive and sustainable development of the Southern Mediterranean region of the EU. METI aims to boost public and private investment to create more jobs, stimulate higher growth, and work toward meeting other UN Sustainable Development Goals (SDGs). METI was launched in Fall 2020 and will continue to support policymakers for four years.

For more information, please visit: http://www.ilo.org/meti.

The METI program is partnering closely with two further EU-funded programmes, implemented by the ITC and the Organisation for Economic Co-operation and Development (OECD). The overall objective of the ITC's programme is to contribute to the inclusive and sustainable economic growth focused on decent job creation and greater regional integration through enhanced and more efficient trade and investment policymaking processes in the Southern Mediterranean Countries (SMC). In particular, the programmes focus on (i) strengthening economic ties between the EU and SMCs and enhancing regional economic integration, and (ii) improving trade and investment transparency by providing free access to information for economic operators and policymakers.

For more information, please visit: https://euromed.macmap.org/euromed/.

The OECD is focusing on supporting the investment climate for countries in the Southern Mediterranean by attracting higher quality and more inclusive investment, reinforcing countries' capacity to self-assess, implement and improve investment climate reforms and supporting sustainable growth and decent job creation. The programme has three main outputs: (i) provide policy advice to support the implementation of investment climate reforms, including policy research and insights on measuring the quality of FDIs and their impact on the labour market and on local SMEs, (ii) conduct regional and national public-private dialogue on investment climate reforms, and (iii) support the monitoring of selected reforms' implementation.

For more information, please visit: https://www.oecd.org/mena/eu-oecd-mediterranean-investment/

METI's Country Reports identify key issues, policies and measures in the four partner countries that need to be addressed in order to take advantage of potential opportunities for creating and expanding jobs associated with higher productivity and decent work conditions. The reports conclude with an overview of policy challenges related to trade, investment and employment and offer guidance for policy makers. Each report will be followed by an in-depth value chain analysis of

strategic sectors, which will shed further light on the bottlenecks to create and upgrade employment along the value chain, especially for women and youth and within SMEs. Based on this analytical work, a tripartite Policy Working Group [1]will then develop concrete policy recommendations to identify ways to promote employment. These recommendations will cover facilitating economic upgrading and/or diversification of value chain structure, linking small-scale producers to international and regional markets, formulating action plans through tripartite public-private collaboration and encouraging technological and managerial innovation with associated improvements in worker productivity. The derived policy recommendations will be published in the form of a Policy Brief that will serve as a companion to the Country Report and provide guidance to key stakeholders on how they could utilize trade, investment, sectoral, labour and other related policies to create more productive and decent work for workers.

[1] The Policy Working Group is comprised of policy makers from relevant government ministries, specialized national agencies (e.g., Customs, Export Promotion Agencies, Investment Boards, etc.), representatives from the social partners (e.g., trade unions and employers' organizations), and other private sector representatives and development practitioners.

Introduction

A significant strand of literature shows that trade policies play a significant role in boosting economic growth and fostering sustainable development through different channels. It also investigates how these policies are associated with decent work (Zaki, 2021a).

In the aftermath of the global financial crisis and the political turmoil in 2011, Egypt's growth rate expanded at an annual average rate of 3.65% from 2011-2020, despite the outbreak of the Corona Virus Disease-2019 (COVID-19) pandemic. This made Egypt the MENA region's only economy that is expected to see a positive growth rate in 2020 (IMF, 2020). Such performance can be explained by the recent reforms undertaken by the government amid the limited lockdown measures taken on the back of the pandemic.

To address several macroeconomic imbalances, the government reached an agreement on a three-year Extended Fund Facility (EFF) with the International Monetary Fund (IMF) in August 2016, receiving the first disbursement in November 2016. A series of economic reforms to revive the economy and promote the private sector-led growth were implemented as part of the agreement. Among these reforms were a decision by the Central Bank of Egypt (CBE) to deploy a flexible exchange rate system to restore equilibrium in the foreign exchange (FX) market, the introduction of value-added tax (VAT), and a hiring freeze in the public sector witnessed. In addition, the government has made sharp cuts in energy and food subsidies (Heintz, 2018).

In FY2019/20, the real GDP growth came in at 5.6% from 5.3% in FY2018/19. The unemployment rate decreased to 7.5% in Q4 2019/20 from 9.9% a year earlier. The overall government deficit to GDP amounted to 8% in FY2019/20. Inflation rate remained subdued averaging 5.3% in FY2019/20 (Ministry of Planning and Economic Development, 2021). At the social level, Egypt's poverty rate declined to 29.7% in FY2019/20, down from 32.5%, two years earlier (CAPMAS), despite rising from 25.2% in 2010 (Word Bank, 2019). Moreover, the living standards of the middle class have been diminished, leading to more inequality (Othman et al., 2021).

A review of Egypt's experience with external shocks suggests that its economy is very vulnerable and lacks resilience, primarily due to its reliance on tourism, remittances, and the Suez Canal revenue as sources of FX gains (Atallah, 2020). In fact, despite the drop in the total contribution of the travel and tourism sector to Egypt's GDP to 3.8% in FY2020/21 (USD 14.4 billion) from 8.8% (USD 32.0 billion) in FY2019/20, which marks a 55% collapse in the sector's contribution to GDP, Egypt ranked as the largest African economy (World Travel and Tourism Council, 2021).

The COVID-19 pandemic did not affect remittance inflows to Egypt, which increased by about 11% to a record high of USD 29.6 billion in FY2020/21, rising for the fifth consecutive year. Remittances from Egyptians abroad accounted for 8.2% of total GDP. In fact, remittances of Egyptian expatriates have risen since the EGP floatation in 2016 (World Bank, 2021). According to the Suez Canal Authority

(SCA), Egypt's Suez Canal revenue hit a record of USD 5.84 billion in FY*2020*/21 (July-June), up from USD 5.72 billion in the previous year[2].

At the sector level, while the Egyptian economy is highly dependent on services, the industrial sector is dominated by construction, oil and capital-intensive manufacturing, such as chemicals and food-processing. This helps somehow explain why Egypt's growth has been 'jobless', with a declining share of labour in total value-added (Amer et al., 2021).

In terms of trade policy, Egypt has been a WTO member since June 1995. It has implemented various reforms targeting trade liberalization and better export performance. The network of new trade agreements, coupled with the unilateral tariff reductions in 2005, has significantly liberalized Egypt's trade policy. Egyptian exporters have been granted better access to significant export markets such as the EU, the European Free Trade Association (EFTA) countries and the United States. At the same time, Egypt's economy has been open to cheaper imports of inputs and intermediate goods, thereby increasing the competitiveness of local exporters (ILO, 2010). Yet, it is important to note that, trade policy can be used as a tool to achieve the UN SDGs. In other words, trade policy reforms can also have some developmental goals (Zaki, 2021a).

As per foreign investments, attracting FDI has been a key pillar of Egypt's economic growth and development strategies since the country commenced its neoliberal shift towards a market-based economy in the mid-1970s. Successive governments which took office post-2011, have identified FDI as a vital contributor to their economic growth strategies and sought to attract FDI by continuing to liberalise the FDI regime. Therefore, Egypt decided to join the international investment regime by launching its Bilateral Investment Treaty (BITs) program and signing the International Centre for Settlement of Investment Disputes (ICSID) Convention. Since then, Egypt has signed 111 BITs placing it among the top ten signatories of BITs worldwide, despite being a net capital importer (Mosallam, 2021).

In terms of labour developments, with the current shock of COVID-19, the Egyptian labour market is particularly worth examining. Integrating a large proportion of the Egyptian population into work and better employment opportunities is a social imperative. The Labour Law of 2003 governs the relations between employers and employees in the formal private sector; it represents the main legal instrument with regard to employment and labour market policies in Egypt.

From a gender perspective, Egypt is home to 48.7 million women, and improvements to their conditions will have a significant impact on the country's economic and social progress. Egypt has witnessed for the first time the appointment of eight female ministers, accounting for 25% of the Egyptian Cabinet. Women empowerment in Egypt does not stop there. According to the ILO, 2016, women's participation and inclusion in the entrepreneurial sector is gaining a notable momentum as an alternative for women's economic empowerment and participation in the Egyptian labour force. Despite such efforts on increasing women empowerment, Egypt still lies at the bottom of the Global Gender Gap Index rankings in terms of economic opportunities for women. It takes the 4th

[2] https://thearabweekly.com/suez-canal-nets-egypt-record-revenue-584-billion

place in the MENA region and the 129th globally out of 156 countries. Egypt has closed 63.9% of its overall gender gap (Global Gender Gap Report, 2021).

Following suit of other countries in the MENA region, the Egyptian labour market faces structural challenges, which restrict the creation of decent work for young people (ILO, 2017). The Egyptian labour market suffers lack of dynamism in the private sector, particularly that of SMEs. Credit policies for Micro, Small and Medium Enterprises (MSMEs) are mostly adopted by the Egyptian government through several agencies, namely, the Ministry of Finance, the Ministry of Investment and International Cooperation, the CBE and the Micro, Small and Medium Enterprises Development Agency (MSMEDA).

The recent economic downturn due to the COVID-19 pandemic has a negative impact on the Egyptian labour market and has been accompanied by a further rise in the unemployment rate. In fact, according to the Central Agency for Public Mobilization and Statistics (CAPMAS), the official unemployment rate increased from 7.7% in the first quarter of FY2020/21 to 9.6% in the second quarter of the same year[3]. However, although this shock negatively affects the employment and income of employees in all sectors, some groups will be hit hardest. Women (working mainly in the agricultural and service sectors), informal and seasonal workers as well as the self-employed are among the most vulnerable groups.

The effects of the COVID-19 crisis were profound and required a broader initiative from the government. In response to the crisis, the government adopted certain public health measures by imposing social distancing rules and mobility restrictions. The government also introduced and announced a USD 6.4 billion fiscal stimulus package, including providing subsidized loans to SMEs, businesses in hard-hit sectors, and low-income households, deferring or exempting tax declarations and payments, and exempting or postponing rent payments or property and land taxes and expanding social safety nets significantly. Moreover, the CBE announced a rate cut of 3%. (IMF, 2020). However, it seemed to stumble when considering appropriate and effective social protection measures to offset the consequences of the economic slowdown and loss of livelihoods. Although proactive, these policies were disjointed and insufficient (Othman et al., 2021).

Against this background, the purpose of this country report is mainly to assess the impact of trade and investment policies on productive and decent work in Egypt, with a full-fledged analysis of the COVID-19 impact on trade, investment and employment.

The remainder of the report is organized as follows: Section 1 reviews the literature on trade, investment and employment. Section 2 provides an overview of the structure of trade, including an analysis of the untapped export potential, and the main characteristics of SMEs and the labour market with a special focus on women and youth. Section 3 focuses on the recent developments in investment and industrial policies as well as trade and employment policies. Section 4 investigates the role of different stakeholders in order to concretize this untapped potential. Section 5 highlights the main policy challenges and the last section concludes the study.

[3] CAPMAS. 2020. Press Release: Because of the coronavirus, unemployment rates increase to 9.6% in the second quarter.

1. Nexus between Trade, Investment and Employment

To determine the impact of trade on employment, four main theoretical frameworks could be evoked (Zaki, 2016). The Ricardian model was one of the first attempts to determine this impact. According to this model, each country exports the good for which it has a comparative advantage leading to a reallocation from the import-competing industries to exporting ones. Accordingly, factors of production should reshuffle to the sectors that have a comparative advantage leading to job creation in these sectors and job destruction in other sectors. In the long run, the efficiency gains arising from trade liberalization are expected to lead to positive employment effects, thanks to more efficient production techniques.

Second, the Heckscher-Ohlin-Samuelson (HOS) model argues that, under the free trade system, countries tend to export the goods that intensively use their relatively abundant factor of production. According to the Stolper-Samuelson effect, an increase in the relative price of goods (where the country has a comparative advantage) will create a more proportional increase in the real returns of the factor, which is intensively used in the production of these goods and vice versa. Such effects are valid when factors are assumed to be mobile between different sectors. Yet, inter-sectoral mobility of production factors is relatively low in the short run. This is why the third framework is the sector-specific model that can be perceived as the short-term version of the HOS model. The sector-specific model assumes that each factor of production is specific to a particular industry.

A movement towards free trade increases the price of exportable goods and reduces that of importable ones. Hence, the return of the factors used in the exporting sectors will increase while factors used in the importing sectors will witness a revenue decline. The net effect on labor depends on the magnitude of gains from exports or losses from imports. The final strand of international trade theory "the new trade theory" argues that firms are heterogeneous and that, instead of having a reallocation of the factors of production between sectors, this reallocation will take place within each sector. Unproductive firms will exit the market, productive firms will serve the domestic market and most productive ones will be able to compete and export to foreign markets (Melitz, 2003).

Trade and investment have played an increasingly important role in the Egyptian economy and have been identified as the main drivers and one of the widely acknowledged paths to stimulate economic growth and boost sustainable development. A large body of literature analyzed the nexus between trade, investment and employment, and revealed the positive effect of trade and investment on employment (UNCTAD, 2013 and ILO 2007). Generally, there is a broad agreement that trade policy in Egypt increased exports and imports. Yet, it had three major drawbacks.

First, the trade policy did not help improve or upgrade the structure of exports, leading to a limited competitiveness at the world level. Second, from a social perspective, it had a significant but limited impact on job creation, especially for youth and women, given that several sectors are rather capital-intensive. Third, with the lack of FDI in the manufacturing sectors, clusters between foreign firms and SMEs were not developed, leading to weak performance of SMEs that were not able to significantly enter the export market.

However, a strand of literature shows that more trade liberalization might help improve job quality (ElAzzawi and Said, 2009), reduce informal employment (Ben Salem and Zaki, 2019) and increase women employment in some sectors such as the textiles and ready-made garments sector (Hendy and Zaki, 2013). Thus, this section aims to present these different strands of the literature.

At the trade policy level, Egypt has concluded free trade agreements on the bilateral and regional levels with different partners, to reduce tariffs, raise exports and boost trade integration (Table 1).

▶ Table 1. Egypt Bilateral and Regional Free Trade Agreements

Free Trade Agreements	Member States	Year of Signature	Entry into Force
Greater Arab Free Trade Area (GAFTA)	17 Arab Countries[4]	1997	1998
Common Market for Eastern and Southern Africa (COMESA) Treaty	21 African Countries	1998	—
EU-Egypt Association Agreement	27 EU Countries	2001	2004
Agadir Agreement	Egypt, Jordan, Morocco and Tunisia	2004	2007
Qualifying Industrial Zones Protocol	United States and Israel	2005	—
Turkey-Egypt- FTA	Turkey	2005	2007
European Free Trade Association (EFTA)	Iceland, Liechtenstein, Norway and Switzerland	2007	2007
MERCOSUR-Egypt- FTA	Brazil, Argentina, Uruguay, and Paraguay	2010	2017
African Continental Free Trade Area (AfCFTA)	54 African Countries	2018	2019

Source: elaborated by the authors based on different sources.

In Egypt, the main trade reforms have been undertaken after the conclusion of the Euro-Mediterranean (EUROMED) partnership agreement signed in Barcelona and the General Agreement

[4] Algeria, Bahrain, Egypt, Iraq, Kuwait, Lebanon, Libya, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, United Arab Emirates and Yemen.

on Tariffs and Trade (GATT) signed in Marrakech in 1994. Subsequently, additional actions towards opening the trade regime have been implemented (Hendy and Zaki, 2013).

Egypt has undergone an economic liberalization process through tariff reduction and removal of Non-Tariff Barriers (NTBs) and has implemented many labour market reforms. Thus, exports have become an engine of growth, enhancing production and contributing to job creation. Starting in 2004, the Egyptian government launched a second wave of reforms on various fronts, tackling several aspects of economy, including boosting economic growth (Karam and Zaki, 2015), promoting investment by improving the business environment and enhancing trade performance through trade liberalization and red tape reduction (Zaki, 2017). In fact, several NTBs were removed, the number of tariff lines declined, and the average tariff decreased.

The literature on the effect of trade on the Egyptian labour market can be divided into three strands: the first focuses on wage disparity, the second on gender and skill dimensions, and the third on informality and job quality.

First, the effect of trade barriers on wage disparity has been widely discussed and a strand of literature provides evidence of the trade impact on wage inequality in Egypt. Indeed, Al Azzawi and Said (2009) combining the effect of trade on both wages and job quality, showed that tariffs do not seem to have had a significant impact on neither wages nor job quality. Yet, increased export orientation may have had a positive impact on wages but has had a significant negative impact on all job quality indices. This demonstrates that there is a sort of a trade-off between wage increase and improvement in job quality. Hendy and Zaki (2013) used a microsimulation for Egypt and simulated the effect of a 50% reduction in import tariffs. Results showed that the effect of trade liberalization policies depends on the characteristics of individuals (males vs. females, skilled vs. unskilled, and urban vs. rural) and the working sector (manufacturing vs. services). Thanks to the expansion of textiles, garments, chemicals, and services, inequality decreased for urban and rural skilled men as well as skilled and unskilled women working in urban areas. By contrast, inequality increased among unskilled men and skilled women in rural areas. In another piece of research, Zaki (2014) assessed the effect of different trade barriers on wage disparities and employment in Egypt. The results revealed that red-tape barriers have a higher impact than traditional tariffs on wage disparity. Female and blue-collar workers are more affected by such barriers. The effect of trade barriers on regional wage disparity seems to be less important than gender and qualification barriers. Finally, when the effects of observable worker characteristics are filtered out, wage premia turned out to be negatively hit by all trade barriers.

Second, trade policy can also affect inequality in terms of gender and skills. In fact, in a higher trade liberalization context, demand for women can rise leading to a reduction in inequality relative to men (Zaki, 2021a). Exports appear to have a significantly positive impact on employment. In fact, El Shenawy and Said (2010) pointed out that almost all manufacturing industries in Egypt experienced increasing employment rates over the period with significant reduction in trade barriers. This increase took place in all sectors, including highly competitive industries that were subject to fierce international competition. Zaki (2016) shed light on the nexus between trade, gender and employment in Egypt and evaluated the impact of trade on employment. The main findings revealed that at the macroeconomic level, exports have a significant and positive effect on employment.

However, at the individual level, exports affect men's wages and women's probability of working, changing the employment status from inactive or unemployed to employed. In other words, the adjustment on female labour markets is based on quantities (the number of women employed), but it is based on prices (higher wages) in male labour markets. This is in line with the fact that some sectors that employ women intensively, experienced a recent increase in female employment (such as employment of women in textiles and garments). In a recent analysis, Karam and Zaki (2021) found that female labour force participation has a positive and a notable impact on both the probability and volume of exports, regardless of a firm size. While the effect of female ownership or management is not significant on trade margins, female management/ownership exerts a positive effect on potential exports by large firms.

Third, trade openness has an impact on job quality leading to a reduction in employment in the informal sector, which is considered as an important employer in Egypt. Ben Salem and Zaki (2019) examined the effect of trade reforms on informal and irregular workers[5] in Egypt. The results showed a positive relationship between tariffs on the one hand, and on both informal and irregular employment on the other. However, the effect on irregular employment is less clear-cut. Skilled formal work increased after trade openness. A positive correlation between tariffs and informal employment has been confirmed by these authors. In fact, as trade is more liberalized, exporting firms are more oriented to formally recruit skilled and productive workers, aiming to face global stiff competition. The demand for skilled workers by firms is likely to be higher for production workers than that for non-production ones (Aboushady and Zaki, 2021). Export firms will increase the demand for skilled formal (and eventually regular) workers and will likely lead to a decline in informal (and irregular) employment. Consequently, trade can be perceived as a tool that may reduce informality and offer better quality jobs (Zaki, 2021a).

A recent study conducted by Aboushady et al. (2022) assessed the effect of different trade barriers (tariffs, NTMs and services restrictions) on wage disparities in the MENA region, including Egypt, considering three dimensions of wage disparities, namely: industry premia, gender-based and skill-based disparities. The results suggested that the effect of services restrictions and NTMs is overall much stronger than that of tariffs on wage premium. Looking at different segments, the authors found that females are more affected by NTMs than their male counterparts. At the skill level, given the abundancy of blue-collar workers in the MENA region, production workers are less hurt by both NTMs and services restrictions than non-production workers. However, they are more affected by tariffs.

Egypt has identified FDI as a vital component of its economic growth. Egypt has a huge potential to leverage its strategic location, considerable market size and young workforce to attract investments. Investment should be designed to create jobs in the short term and increase potential growth and exports in the long term (IMF, 2015). In particular, infrastructure investment has experienced a remarkable improvement and has a key role to push economic growth and job creation, which is necessary to fulfil the inspirations of a growing population with a high percentage of youth (Ernest and Sarabia, 2015). This has undoubtedly supported the relatively strong economic

[5] Irregular employment is defined as the number of workers with contract duration of less than 12 months, self-employment and contributing (unpaid) family workers

growth performance of the country and contributed to the progress in social and economic wellbeing of its citizens.

An expanding increase in the attractiveness of entrepreneurship is being witnessed in Egypt, as a direction adopted by the Egyptian government to promote MSMEs in order to encourage more citizens to invest in such ventures, and in turn, to contribute to the overall economic development in Egypt, and to mitigate high youth unemployment rates. In the same vein, Asli and Noormohamadi (2012) investigated the effect of FDI on average wage level for a group of MENA countries, including Egypt, and found a positive effect that was explained by the increase in productivity brought by FDI. However, when human capital, measured by expenditures on education, was added into the determinants of the wage rate, the effect of FDI turned to be negative; this was attributed to the low bargaining power of labour force. Compared to other funding sources, FDI offers significant advantages, mainly because it provides a relatively stable financial flow, helps to ramp up the productive capacity, and promotes employment and trade in the host country (Garcíaa et al. 2013).

In addition, Haq and Zaki (2015) found that while exports had a significant and positive effect on employment over the sample period, investment, measured by gross fixed-capital formation, did not. This is in line with Fawzy (2002) findings pointing out that investment policies during 1960-2001, failed to achieve the target job growth. The economic policies applied in this period, in general, resulted in relatively low investments, which undermined the possibility of creating the required level of jobs.

At the SMEs level, the Addis Ababa Action Agenda (2015) recognized that "international trade and investment offer opportunities but also require complementary actions at the national level …" and further recognized, "the need for value addition by developing countries and for further integration of MSMEs into value chains." Indeed, SMEs are considered a main job creation engine. They are also more likely to provide formal employment. El-Said et al. (2015) showed that facilitating access to finance is likely to shore up the Egyptian SMEs exports and diversify their markets. In fact, SMEs access to finance is extremely important to promote entrepreneurship and innovation as well to improve the export performance of SMEs in Egypt. One of the mechanisms that can be used in order to increase the sustainability of SME activities in Egypt is to enhance their integration in international markets through facilitating their access to finance. Limited access to finance is recognized as one of the major obstacles that SMEs face in Egypt (Amer and Selwaness, 2021). After the ratification of the Trade Facilitation Agreement (TFA), Egypt is encouraging SMEs to export and diversify their exports. Smaller firms are more adversely affected by technical barriers to trade (TBTs) in their export participation as well as entry and exit decisions (Kamal and Zaki, 2018). Small and medium exporters are negatively affected by administrative barriers. On the other hand, the large ones, the superstars, face a stronger adverse effect caused by these barriers to trade (Hendy and Zaki, 2021).

Reduction of administrative barriers to trade is crucial for the countries trying to become part of regional value chains (RVCs) and global value chains (GVCs). Abouelfarag and Abed (2017) analyzed the effect of foreign capital inflows, greenfield investments and external debt, on economic growth and employment levels in Egypt. The results suggested that the effect of real FDI and external debt on growth is either insignificant or even negative in the long-run, in spite of a positive influence in the short-run. The impact of FDI on employment is positive in the long-run but the external debt effect was found to be insignificant because of its limited use in financing export-oriented activities.

In another study, Abouelfarag and Abed (2018) examined the impact of FDI on real wages on the entire economy of Egypt.

First, the effect of FDI on real wages was tested on the whole economy, and then special attention was given to the basic sectors in the economy. The results ascertained that the highest long-run effect of FDI on wages is detected in the manufacturing sector, while it is insignificant in the tourism sector. This positive effect of FDI on wages can be explained either by productivity spillover effect (as labour productivity has positive effect on wages, especially in the manufacturing sector) or by the fact that local and foreign firms compete for the limited supply of skilled labour in Egypt, thus, enhancing increase in wage rates. Zaki et al. (2018) found that the manufacturing sector is the most important sector in terms of job creation, followed by construction and building in Egypt. To increase employment, more efforts are needed to promote investments in high value added manufacturing sectors.

Despite that, Egypt's economy is suffering some structural imbalances when it comes to FDI: first, it has a high level of imported intermediate inputs leading to a chronic trade deficit; second, FDI is concentrated in low-value-added sectors (Zaki, 2017); third, the legislation and policies adopted over the past few decades have also failed to attract FDI in terms of volume and quality (Mossallam, 2021). FDI, in turn, failed to generate jobs or create GVCs since they are concentrated in the oil sector (Zaki, 2021b). To overcome this FDI problem, Egypt has adopted a series of reforms that attracted FDI mainly from European and Arab investors. The country should also undertake further reforms that continue improving the business and investment climate. However, investment policies should be reoriented to attract domestic and foreign investment in order to support economic diversification in an environment conducive to generating decent employment.

2. Assessment on Trade, Investment and Labour Market Developments

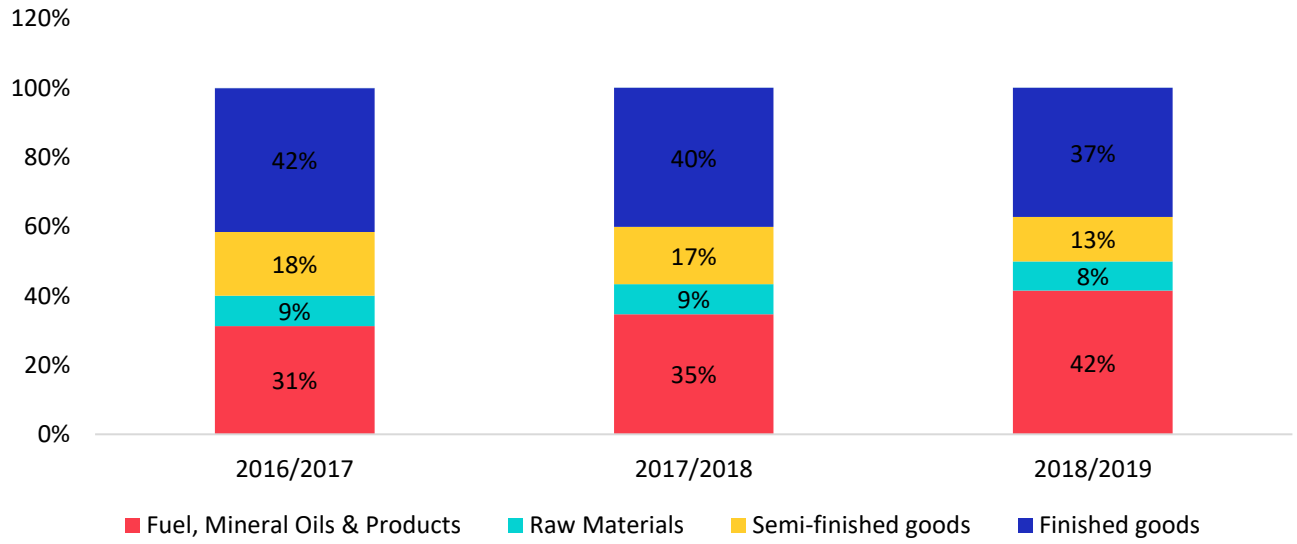
After presenting the main strands of the literature on the effect of trade on labour market in Egypt, this section presents the main features of FDI, trade, SMEs and the labour market in Egypt, with a special focus on the effect of the pandemic on the labour market.

2.1 Trade and FDI Overview

2.1.1 Evolution of Trade and FDI

Figure 1 shows that the share of finished goods exported by Egypt has decreased from 42% in FY2017/18 to 37% in FY2019/20. This can potentially be explained by two different trends: on the one hand, with a continued decline in the manufacturing sector's total value added, the share of exported finished products is likely to decline. This is confirmed by the increase in exports of oil and refineries from 31% to 42% over the same period of analysis. Moreover, with the slight decline in Egypt's exports of semi-finished goods or raw materials, its integration into GVCs did not improve in recent years.

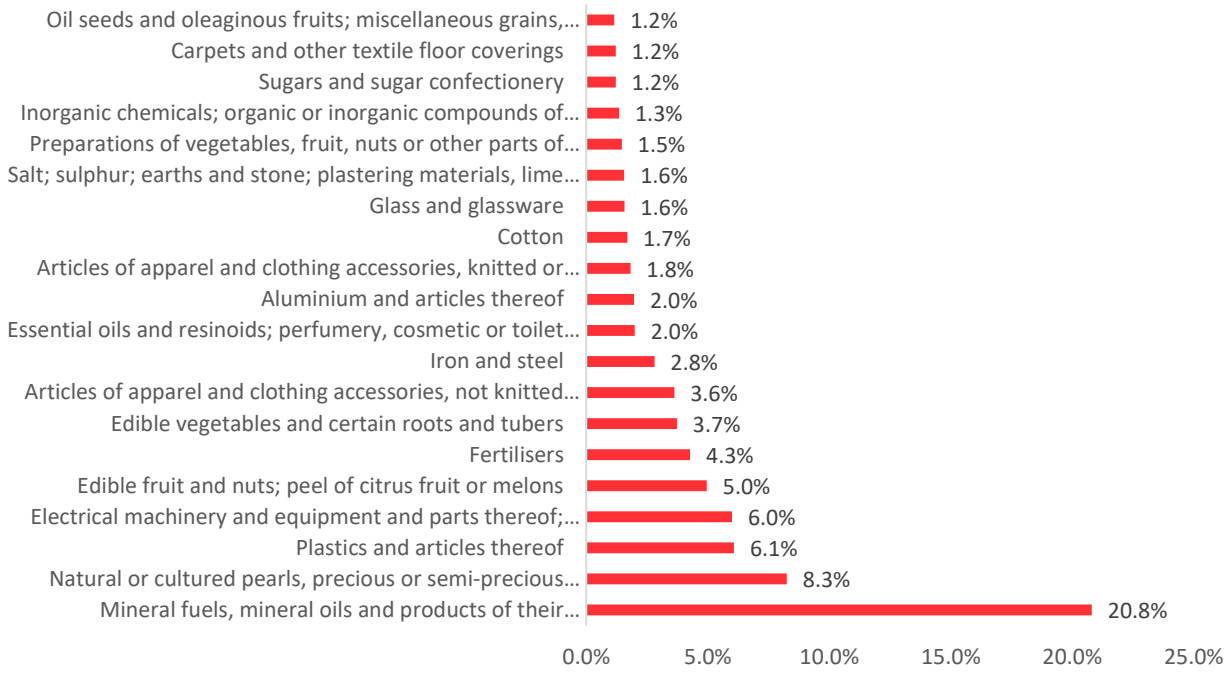
▶ Figure 1: Export Structure by Degree of Processing



Source: Central Bank of Egypt

A more detailed look at the structure of exports in Egypt shows that its top products are mineral fuels and mineral oil (21%), followed by natural or cultured pearls (8%), plastics (6%), electrical machinery (6%), edible fruits (5%) and fertilizers (4%) as shown in Figure 2.

▶ **Figure 2: Share of Top 20 Exports by Egypt in Total Exports (%)**



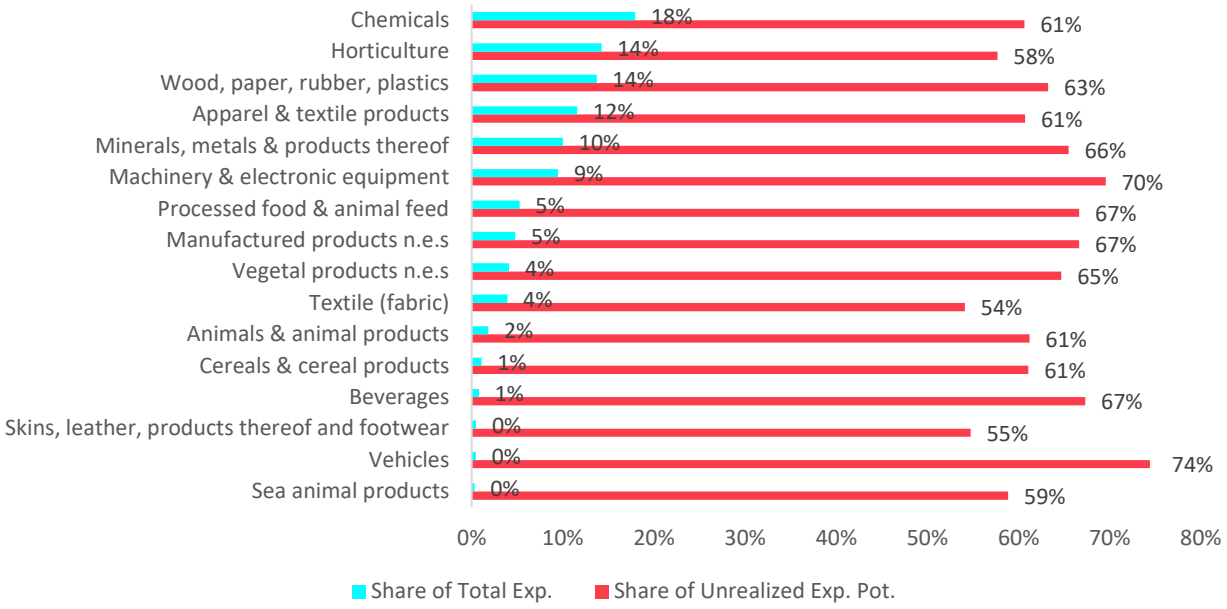
Source: Authors' own elaboration using the ITC dataset (Trade Map)
Note: The analysis is conducted at the HS2 level, which provides the average of exports for each product in 2016, 2017, 2018, 2019 and 2020.

Beyond the pandemic, it will be important to determine which sectors have a higher potential than others. To do so, we rely on the ITC estimations (Decreux and Spies, 2016). This helps identify the unrealized exporter's potential export value for a given product in a specific target market[6]. This unrealized potential is defined as the difference between the theoretical or the potential level of exports, what the country *should* be exporting and what the country is actually exporting. Figure 3 shows a large heterogeneity in the untapped export potential in Egypt.

While chemicals represent 18% of Egypt's exports, its untapped potential amounts to 61% of total export potential. The horticulture sector has a lower share of 14% and a slightly lower untapped potential. Other sectors have a higher untapped potential and are currently among the priority sectors of the government, especially electrical appliances and electronics, machinery, and vehicles. At the destination level, Egypt's unrealized potential amounts to 63%, with a great potential in Africa. This is in line with the recent developments and the political momentum in the African continent since the AfCFTA took effect in January 2021. Thus, Egypt's exports should increase in the coming years (see Figure 4).

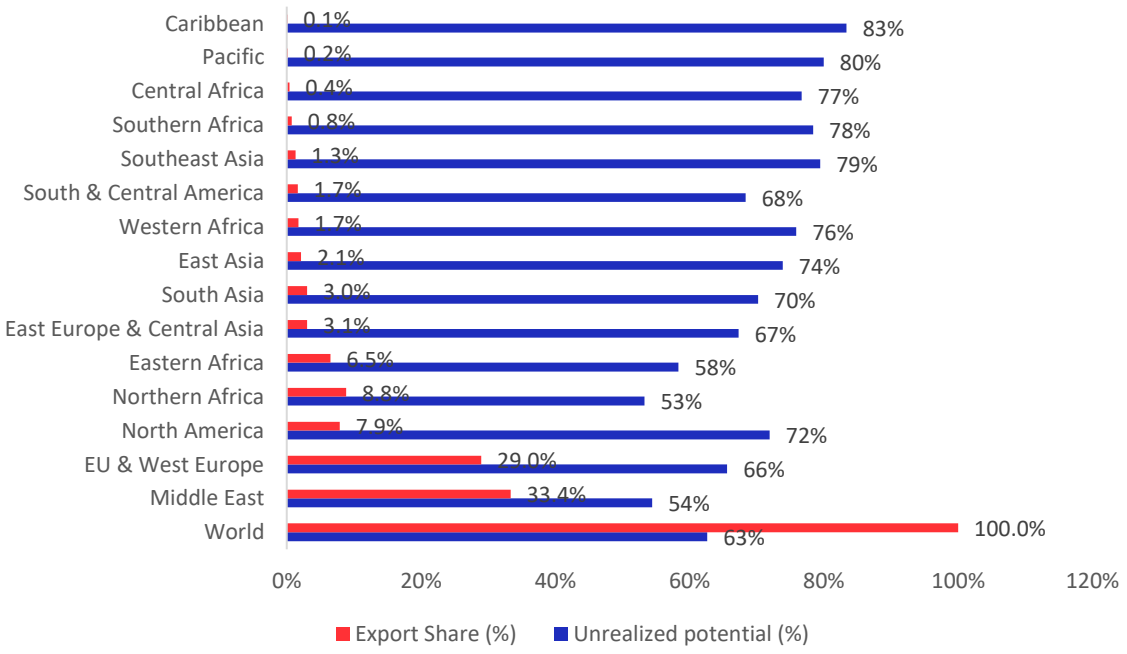
[6] $Unrealized\ potentialijk = EPijk$ − min ($vijk$, $EPijk$), where EP is the export potential from country i of product k to country j; v corresponds to observed exports from exporter i of product k to market j. In case of $vijk > EPijk$, the unrealized potential equals zero. The EP variable is estimated in a way that takes into consideration supply, demand, and easiness to trade characteristics between the two countries.

▶ Figure 3: Untapped Export Potential by Sector



Source: Authors' elaboration based on ITC calculations
Notes: The unrealized export potential is presented as a share of total potential exports. Thus, the sum of the realized and unrealized export potential adds up to 100. The figure also includes the share of each product in Egypt's total exports to show whether this product, currently, has a significant share or not.

▶ Figure 4: Untapped Export Potential by Region



Source: Authors' elaboration based on the ITC calculations
Notes: The unrealized export potential is presented as a share of total potential exports. Thus, the sum of the realized and unrealized export potential adds up to 100. The figure includes also the share of each region in Egypt's total exports to show whether this region, currently, has a significant share or not.

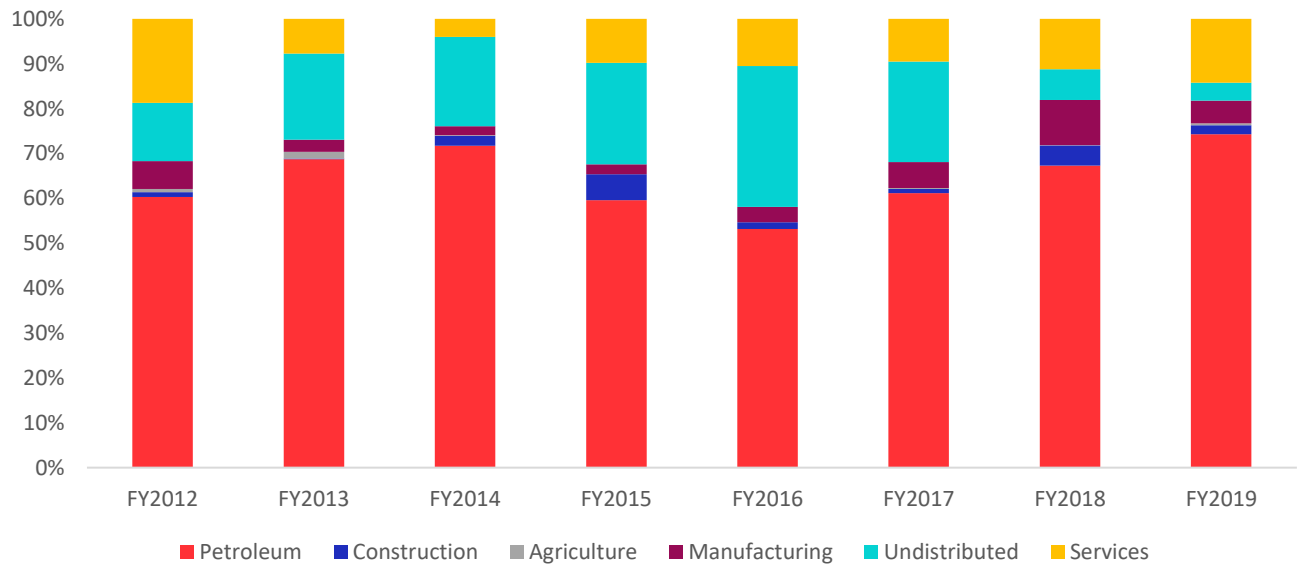
The OECD progress report (2021) on regional integration of SMCs revealed that for agricultural and mining products, Egypt, among other countries, e.g., Bosnia and Herzegovina, Morocco, Tunisia and Turkey, dramatically improved their scores, while Jordan and Lebanon, in contrast, were below expectations. At the same time, Tunisia – and to a lesser extent, Egypt and Morocco – have widely contributed to North Africa's higher integration with the Union for the Mediterranean (UfM) member countries, although specialising in different products. While Morocco and Tunisia saw higher integration in the transport equipment, machinery and electronics sectors, Egypt saw significant improvement in chemical products.

As per the FDI, more than 70% of the FDI net inflows are concentrated in the oil sector and only 4% in the manufacturing industry. Such a structure has three main implications (see Figure 5). First, given that the petroleum sector is highly capital-intensive, it does not create a large number of jobs. Second, its extractive nature is associated to achieving a low value-added (even with oil refineries). Finally, it is not linked to technology transfer that can improve the overall productivity of the manufacturing sector.

Thus, attracting more FDIs in the manufacturing sector will clearly require better institutions and an improved investment climate.

Table 2 shows that Egypt's overall rank in doing business variables is 114 among 190 countries. On a different note, the services sector experienced a significant improvement as its share increased from 4% in FY2014/15 to 14% in FY2019/20 (mainly in financial services, ICT). Since this sector is labour-intensive, FDIs are likely to boost employment but generally for white collar workers, with a less significant effect on blue-collar staff that are more abundant.

▶ Figure 5: Foreign Direct Investment by Sector



Source: Authors' elaboration using the CBE Dataset

▶ **Table 2. Rankings of Doing Business Variables, 2020**

Global Rank	114
Rank within a Group	12
Starting a Business	9
Dealing with Construction Permits	11
Getting Electricity	11
Registering Property	16
Getting Credit	4
Protecting Minority Investors	7
Paying Taxes	19
Trading across Borders	16
Enforcing Contracts	20
Resolving Insolvency	8

Source: World Bank, Doing Business Online Dataset

In addition to FDIs, public domestic investments are a top priority for the Egyptian government through megaprojects. Indeed, along with the stabilization program that started in 2016, the country witnessed a proliferation in megaprojects for the past four years in order to boost the economy, attract FDIs, develop export capabilities, and expand by building new urban cities as well as establishing industrial and economic zones. Based on Egypt's investment map[7], Table 3 summarizes these projects that are mainly divided into six groups (agriculture, industrial clusters, tourism, urban development, energy and new ports). Obviously, these projects are quite diverse in terms of their size, level of implementation and type of investor. At the macroeconomic level, while the public sector investments account for 74.7% of total investments, megaproject investments reached EGP 146 billion (USD 9.1 billion) for FY2019/20. Whereas most of the projects are financed by the government, some have been funded by international donors such as the World Bank, the EU and the African Development Bank (ADF) (see Table 6 in the Appendix) or through joint ventures (JVs). For instance, at the energy level, a large project (valued at USD 16 billion) is implemented in the field of natural gas through a JV between Eni and the Egyptian General Petroleum Corporation (EGPC) (AmCham, 2021). For solar energy, the Benban Solar Park in Aswan is among the world's largest grid-connected solar installations with a total capacity of 1.8 gigawatts (GW). The European Bank for Reconstruction and Development (EBRD) provided USD 500 million in funding for 16 projects, while the International Finance Corporation (IFC) with other international banks provided USD 653 million for 13 projects. For nuclear energy, El Dabaa Nuclear Power Plant will be operated by the Russian State Atomic Energy Corporation (Rosatom), with a total cost of USD 21 billion. Among the most important projects is the New Administrative Capital (costing around USD 45 billion), which is implemented with several private and foreign investors (such as China that will establish an electric train for a USD 740 million loan).

[7] https://www.investinegypt.gov.eg/English

▶ **Table 3. List of Megaprojects in Egypt**

Agriculture	Industrial clusters	Tourism
• 1.5 million Feddan Project • Al Moghra Area • West- West Minya Area • East Port Said Fishery Project	• Suez Canal Economic Zone (SCZONE) • Ain Sukhna Area and Ain Sokhna Port • Integrated East Port Said Area • Qantara West Development • Damietta Furniture City • Al Robbiki City for Leather • Golden Triangle	• Pyramids Giza Plateau Development Project • Coptic Museum • Fustat Area Development Project • Katameya Entertainment City • Development of Lake Arab
Urban Development	**Energy**	**Ports**
• New Administrative Capital • New Al Alamain City • Al Galala City and Tourist Compound • Maspero Triangle • New Aswan City • New Port Said City • Development of Al Qanater Elkhayria City • City of Jerjub • East Ismailia	• Natural Gas Project • Renewable Energy Projects • Benban Solar Park • Solar Plant in Safaga • Solar Plant in Fares • Wind Farms South Zaafarana • Wind Farms East Nile • Wind Farms West Nile • Thermal Power Station	• West Port Said Port • Al Adabeyya Port • Al Tor Port • Al Arish Port

Source: Authors' own elaboration based on Egypt's Investment Map

While these projects avoided some of the disruptions experienced by other sectors in the economy and remained on schedule despite the pandemic, some estimates attributed the 3.8% GDP growth of FY2019/2020 to the governments' megaprojects[8]. Yet, three remarks are worthy to be mentioned. First, while public investments have increased, the private sector investments declined, which is likely to negatively affect job creation particularly in the manufacturing sector. Second, from a social perspective, public investments, concentrated in the infrastructure and construction sectors, might increase at the expense of other types of social spending. Indeed, data from the Ministry of Finance show that social spending (that includes health, education and social spending) decreased between FY14/15 and FY19/20 from 7% to 5.1% of GDP. More particularly, education spending decreased from 4% of GDP in FY14/15 to 2.3% in FY19/20, while health expenditure remained almost unchanged (around 1.4% of GDP over the same period). Furthermore, spending on social protection decreased slightly from 1.7% to 1.4% of GDP. Third, prioritizing public expenditure is important to avoid any fiscal pressure on the budget at the macroeconomic level, especially that Egypt has a limited fiscal space.

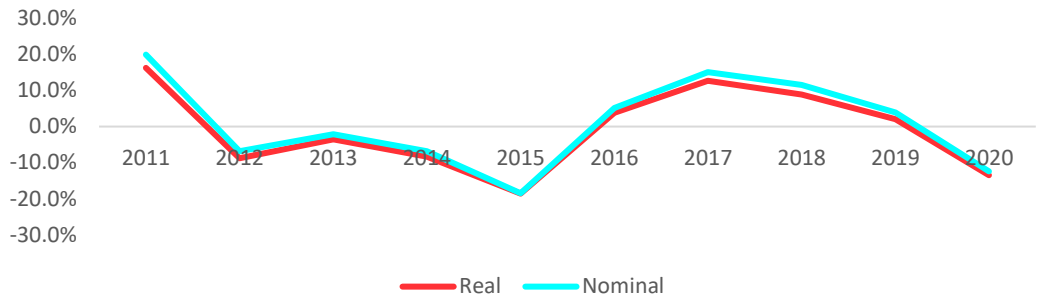
2.1.2 COVID-19 Impact on Trade and FDI

The pandemic represents both a supply and a demand shock. This is why, globally, with the lockdown measures, both trade and FDI have been adversely impacted. Indeed, in Egypt, Figure 6 shows that exports decreased by 13.5% in FY2020/21, compared to positive growth rates between

[8] https://enterprise.press/issues/2020/08/26/egypts-megaprojects-cushion-economic-impact-great-lockdown/

FY2016/17 and 2019/20 that reached a peak in FY2017/18 with the currency devaluation starting in November 2016. Indeed, Figure 7 shows that Egypt's real effective exchange rate (REER) depreciated significantly from a value of 169[9] in October 2016 to 95 in January 2017. Afterwards, the currency appreciated until May 2020 followed by a slight devaluation.

▶ Figure 6: Growth of Exports

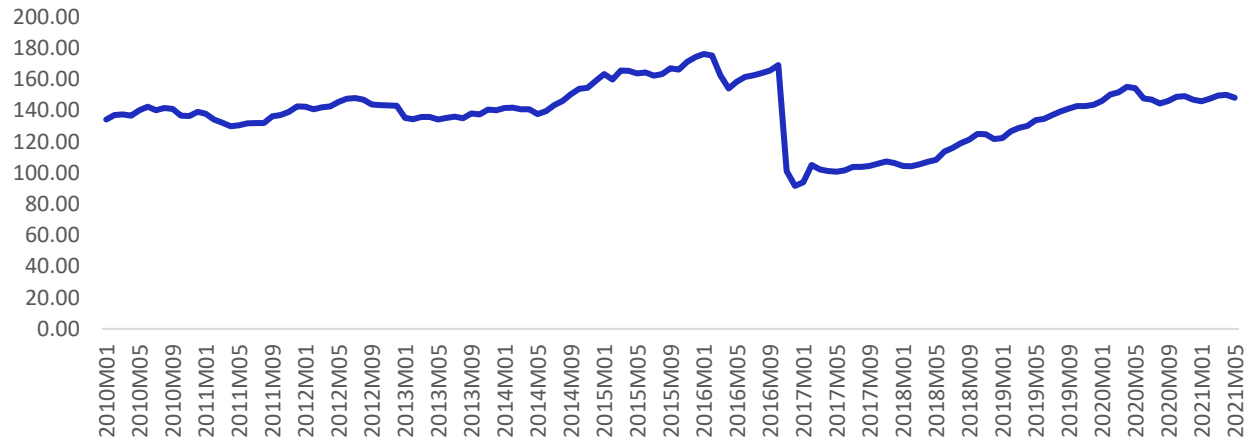


Source: Authors' elaboration using CBE Dataset

It is important to note that, despite the currency devaluation that took place in 2016, the effect on exports was rather limited. Zaki et al. (2019) present four reasons that explain such a trend. First, imports are inelastic as 75% of the imported goods are either intermediate, investment, raw materials or fuel necessary for both production and exports. Therefore, since devaluation leads to higher import prices, production raw material prices increased, contributing to cost-push inflation. Second, while devaluation slashes export prices, firms may not choose to keep foreign currency prices as they seek to increase their profit margins. Third, some studies argue that depreciation can reduce efficiency incentives because firms can become competitive without the effort of increasing productivity, which might make depreciation inefficient. Fourth, investment, production and exports are still facing several bottlenecks that hinder the private sector expansion.

[9] The real effective exchange rate is estimated by Darvas (2013) using a basket of currencies against the Egyptian pound. An increase in this index shows an increase and a decrease in depreciation.

▶ **Figure 7: Real Effective Exchange Rate**



Source: Authors' elaboration using Darvas (2012) dataset
Note: The REER is the weighted average of Egypt's currency with respect to a basket of other major currencies. The weights are determined by comparing the relative trade balance of a country's currency against that of each country in the index. An increase of this index shows a real appreciation of the currency vis-à-vis other currencies.

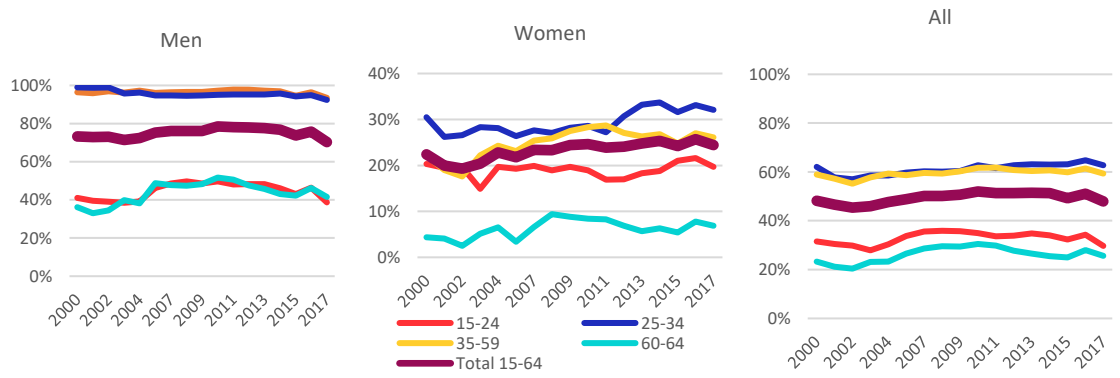
As per FDI, the pandemic also affected Egypt significantly since inward investment to Egypt more than halved during the quarter from January-March of FY2020/21 to USD 970.5 million down from USD 2.3 billion in the same quarter a year earlier. Thus, in light of the limited effect on exports and the decrease in FDI and the Suez Canal dependence on the development of international trade, different sources of foreign currency in Egypt have decreased. Moreover, as external debt and the cost of imports increase, further pressure has been put on the Egyptian pound.

2.2 Labour Market Overview

2.2.1 General Overview

Like many other countries in the MENA region, Egypt's labour market has low participation rates of women. According to official LFS data, the male participation rate was 70.3%, while the female rate was only 24.4%. Yet, the overall participation rate among working-age individuals (15–64) increased by 8% between FY2000/01 and 2010/11 reaching 52%, ahead of declining to reach its 2000 level. This decline is confirmed for the 2018–2019 period (CAPMAS, 2020). It reflects the drop in male participation over the last two decades, compared to a slight increase in the female rate between FY2000/01 and 2017/18, from 22.4% to 24.4% (see Figure 8).

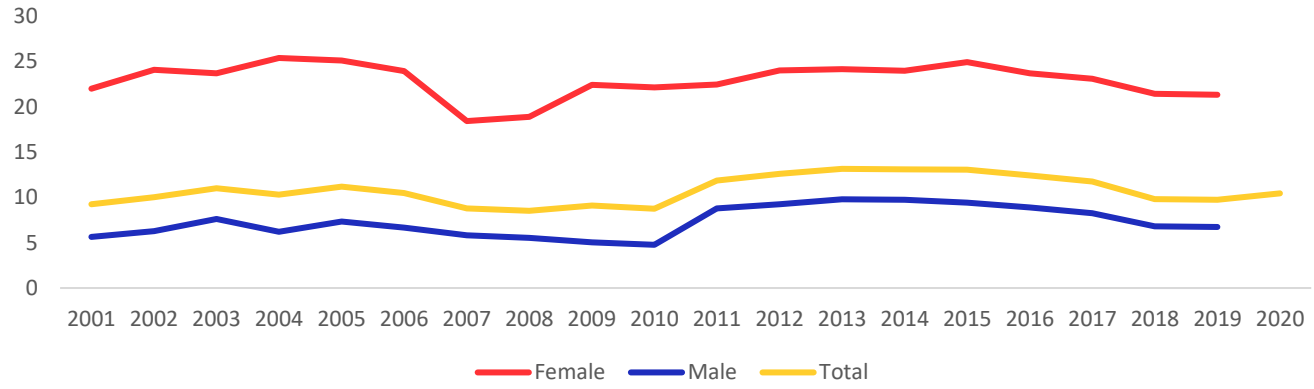
▶ **Figure 8: Labour Force Participation Rates by Age Group and Sex, (Ages 15–64) from 2000–17**



Source: Amer et al. (2021), based on CAPMAS- LFS 2000–04 & 2006–17
Note: The LFS 2005 is excluded due to inconsistent estimates.

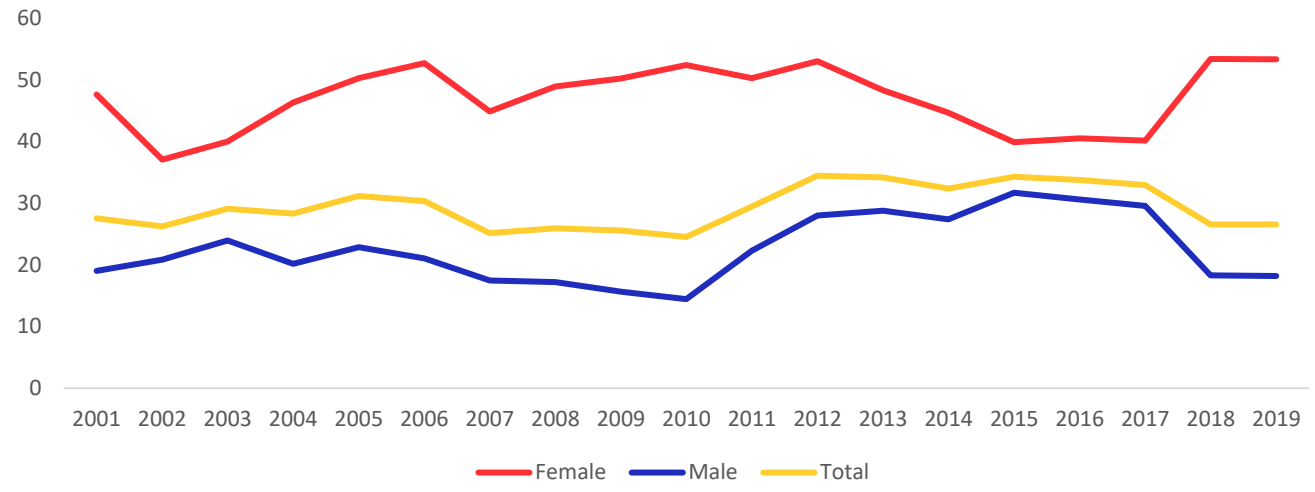
Overall, unemployment has been decreasing since FY2015/16, but unemployment rates for women and youth are still particularly high. As illustrated in Figure 9, while the male unemployment rate was 6.7% in FY2019/20, the rate among females and youth stood at 22.3% and 26.5%, respectively (see Figure 10). It is noteworthy that whereas youth unemployment rate is 2.6 times higher than the total rate, the gap between young males and females (aged between 15 and 24 years) is 14.5 percentage points. Thus, female youth implied a double cost for individuals. This is why improving the competitiveness of sectors that are intensive in women and youth is a key factor to address the issue of unemployment for these categories of the population.

▶ **Figure 9: Unemployment Rates (%) by Gender**



Source: ILOSTAT

▶ **Figure 10: Youth Unemployment Rates (%) by Gender**



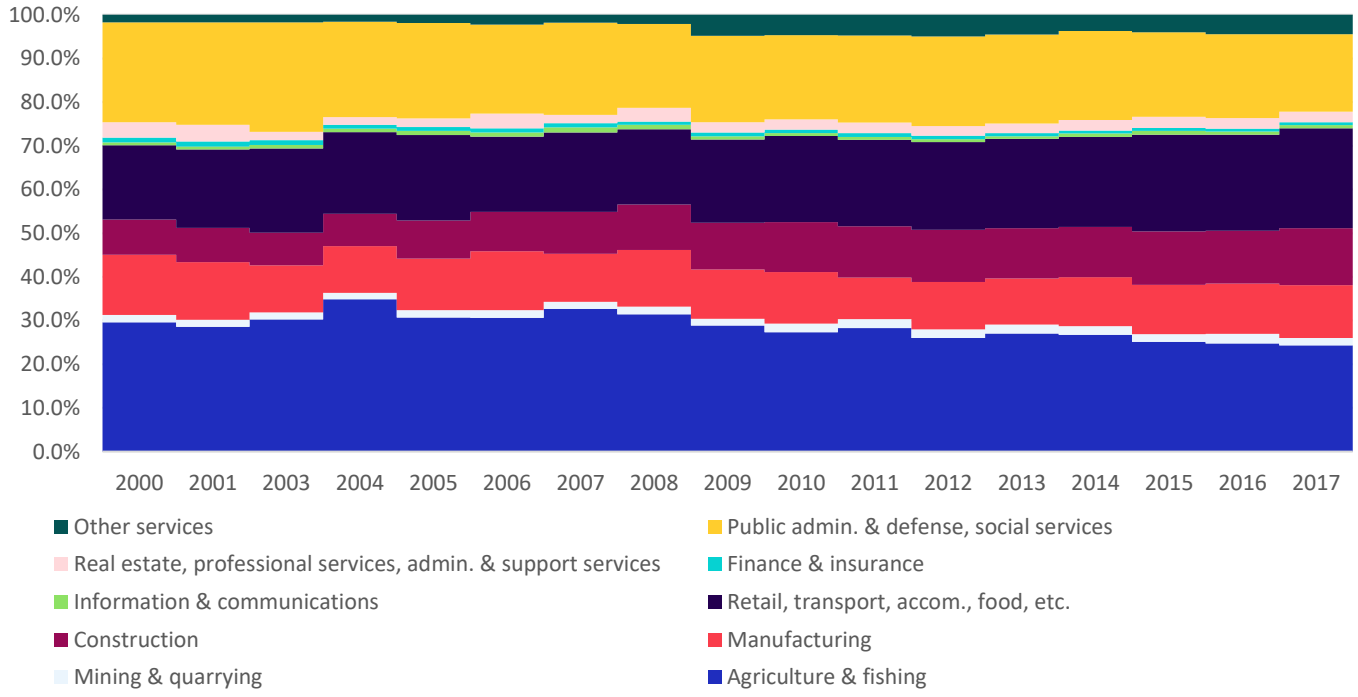
Source: ILOSTAT

At the sector level, Figure 11 shows that employment is chiefly concentrated in both the services and the agriculture sectors. The latter is a larger employer given that its share in total employment stood at 24% in FY2017/18, followed by the wholesale and retail trade (22.9%) and the manufacturing sector (17.7%). Amer et al. (2021) show that male-concentrated sectors are the ICT and manufacturing, followed by real estate and professional services, and finance and insurance activities, with formal private-wage work from FY2009/10–FY2017/18. Yet, more vulnerable jobs (either self-employed or informal private-wage work) for males are found in the construction and agriculture sectors. Women are generally employed in the public sector (mainly services and to a lesser extent the manufacturing sector).

This reflects women's preference for formal and more stable jobs. Generally, it is important to note that around two thirds of women are working in the service sector, less than one third in the agriculture sector, alongside a trivial share (no more than 5%) in the manufacturing industry. Obviously, in order to increase the share of workers in the manufacturing sector, more efforts are needed to focus on labour-intensive jobs. Indeed, this sector's contribution to total employment decreased from 20.5% in 2012 to 17.7% in 2017 (see Figure 11).

Moreover, it is important to note that while the unemployment rate has been decreasing since FY2015/16, the share of precarious jobs (working poverty, absence of a legal contract, pension or health coverage, or under-employment) has been on the rise. In fact, Fedi et al. (2019) showed that precarious work increased from 39.6% in FY2008/09 to 53.7% by FY2017/18. At gender level, while the share of informal jobs for women is generally lower than men, the job precariousness tendencies e.g., low-paid jobs and working poor (employed individuals in households with a disposable income below the regional poverty line) are greater for women than for men, which confirms their vulnerability in the labour market.

▶ **Figure 11: Distribution of Employment by Economic Activity**



Source: Authors' own elaboration, using CAPMAS-LFS from 2000–17

2.2.2 COVID-19 Impact on Employment

As it was shown before, the real sector in Egypt has been negatively affected by the pandemic. This is why the labour market suffered also since males' unemployment rate increased from 4.5% during the second quarter of October-December of FY2019/20 to 8.5% in the third quarter of January-March of FY2020/21. Yet, the female unemployment rate remained relatively stable at 22% over the same comparative period. In the following quarters, unemployment rates decreased to reach 5.6% and 15.9% for males and females, respectively early FY2021/22 (see Figure 12).

Data from the ILO/ERF COVID Monitor show also that the share of unemployment in the surveyed population increased by 50% between February 2020 and January 2021, especially for individuals with basic, secondary and tertiary education. Unemployment for men also went up 50%, compared to women. At the sector level, workers in accommodation and food service were the hardest hit by the pandemic given that around one third of the surveyed population reported a decrease in working hours and in wages. Moreover, 23% of the firms reported that they had to lay-off some workers (ILO, 2021).

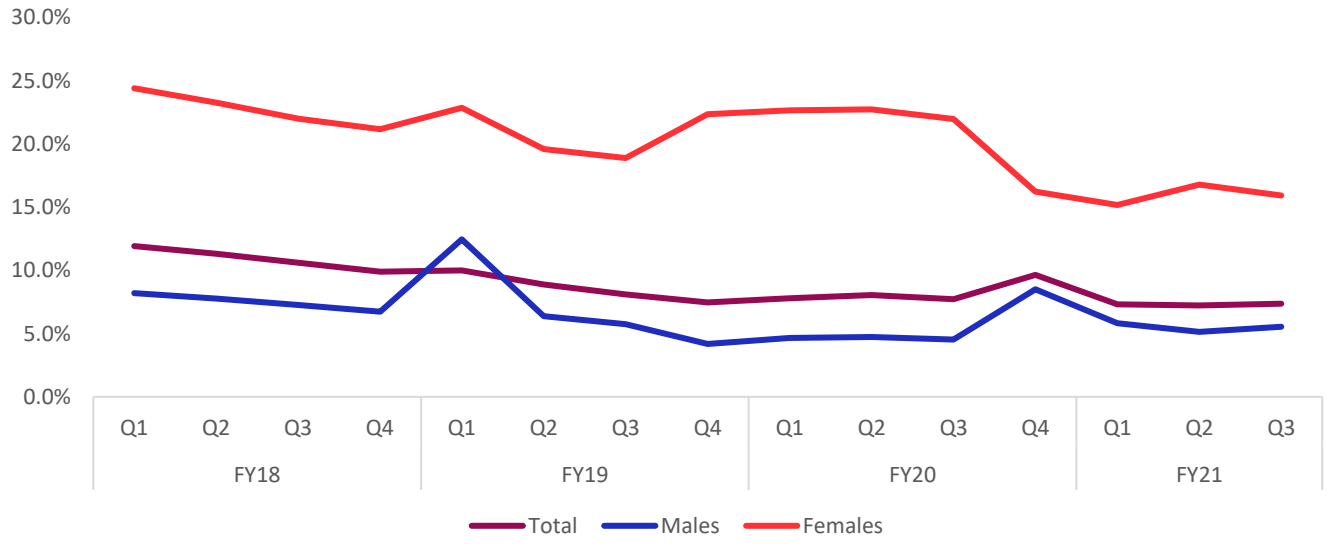
It is important to note that the government of Egypt has implemented a series of measures to curb the negative impacts of the pandemic. It has raised the coverage of the "Takaful and Karama" program by increasing the number of beneficiary households by 100,000 and injecting EGP 1 billion in the allocated budget. In April 2020, a one-off monetary compensation (EGP 500) was provided to

the informal workers registered at the database of the Ministry of Manpower through post offices. In addition, a 75% allowance has been secured for medical professionals.

At the industry level, the CBE has undertaken several measures regarding debt relief programs, and loans payment deferrals. It has reduced key policy rates, and provided preferential rate on loans to SMEs, sectors of industry, tourism and housing for low-income and middle-class families. Furthermore, the impact of the pandemic is expected to be particularly severe for people and enterprises in the informal sector, which represents 63% of total employment in all sectors and accounts for nearly 30-40% of GDP. This is why the Ministry of Manpower has allocated EGP 50 million (USD 2.9 million) for irregular workers, including women, who lost their jobs due to the coronavirus (Ramadan and Zaki, 2020).

Thus, with such measures, some of the macroeconomic aggregates did not much deteriorate in the pandemic year. Indeed, economic growth reached 3.6% in FY2019/20 down from 5.6% in FY2018/19. The fiscal deficit reached 7.9% in FY2019/20 down from 8%, a year before, with a primary surplus of 1.8% in FY2019/20 down from 1.9% in FY2018/19. Inflation decreased from 13.9% in FY2018/19 to 6.7% in FY2019/20. Thus, most of the macroeconomic aggregates improved during the pandemic year. Yet, the poverty rate reached 32% in FY2018/19 up from 28.5 in FY2015/16 after the implementation of the structural adjustment program in 2016. More recent figures show that poverty rate decreased to 29.3 in FY2020/21 (CAPMAS, 2021).

▶ Figure 12: Quarterly Unemployment Rates (%)



Source: Authors' own elaboration, using CAPMAS Labour

2.3 SMEs Overview

2.3.1 General Overview

According to the World Bank Enterprise Survey (WBES) (2020)[10], 89% of enterprises in Egypt are small, 10% medium and 1% large ones. Moreover, at the sector level, most of small enterprises are concentrated in the services sector (46%), followed by food industry (13%) and wood products (10%). A similar pattern is observed for medium ones in addition to the textiles sector that represents 10% of the total number of medium enterprises. The large ones have a different structure, given that only 19% are operating in the services sector, followed by 14% in textiles, 11% in food, 9% in petroleum and 8% in chemicals (see Table 4).

▶ **Table 4. Distribution of SMEs by Sector– 2020**

Sector	Small	Medium	Large	Total
Food	13%	10%	11%	12%
Textiles	7%	10%	14%	7%
Leather	1%	1%	1%	1%
Chemical	0%	3%	8%	1%
Petroleum	1%	3%	9%	1%
Non-Metals	2%	4%	6%	2%
Basic Metals	3%	4%	5%	3%
Machinery	2%	2%	7%	2%
Wood Prod.	10%	6%	6%	9%
Other Materials	1%	1%	2%	1%
Construction	4%	4%	4%	4%
Services	46%	43%	19%	46%
Hospital	3%	5%	4%	3%
Other Services	7%	4%	4%	8%
	100%	100%	100%	100%

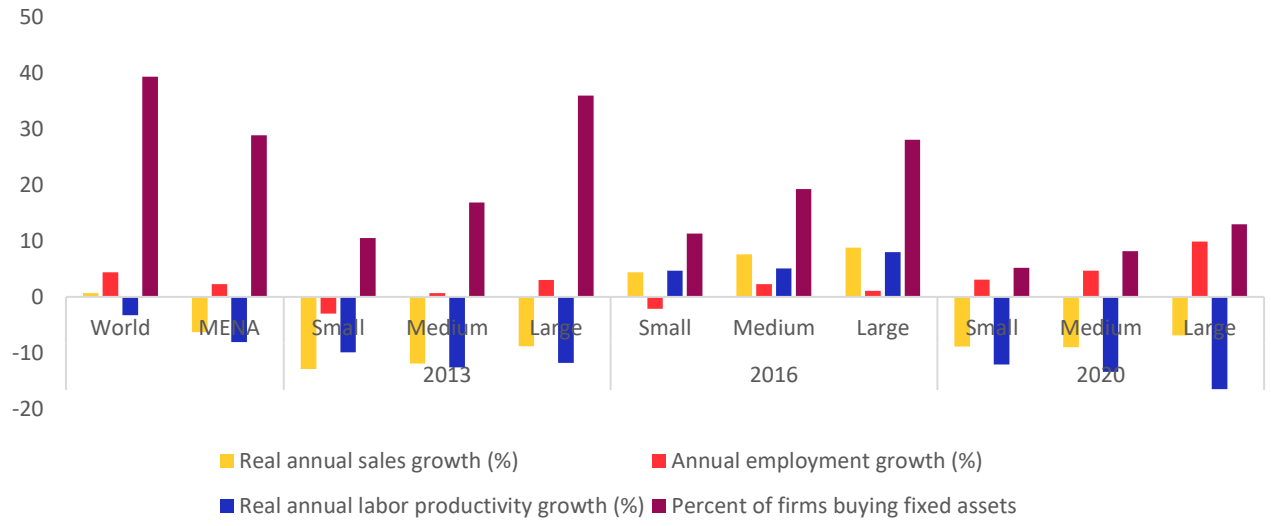
Source: Authors' own elaboration using the World Bank Enterprise Surveys

Figure 13 shows some indicators related to firms' performance between FY2013/14 and FY2020/21. Generally, three important observations can be drawn. First, large firms are the ones that buy fixed assets compared to SMEs. This can be explained by two main reasons. On the one hand, the improvement in some investment climate variables could provide more incentives to engage in long term investments, especially for large ones. On the other hand, for SMEs, this observation might be linked to a limited access to finance that prevents them from buying fixed assets and pursuing expansions. Second, in FY2013/14 and FY2020/21, all firms reported lower sales growth. This might be explained by the deterioration in some investment climate determinants, especially corruption,

[10] The World Bank Enterprise Survey (WBES) classifies enterprises with 5-19 employees as small and those with 20-99 as medium and greater than 100 as large.

tax policy, time to start business and business formalities (see Table 5). Third, the lack of qualified workers can potentially explain the decline in labour productivity for all firms.

▶ Figure 13: Firms' Performance (2013-2020)



Source: Authors' own elaboration using the World Bank Enterprise Surveys

▶ Table 5. Evolution of Constraints 2013-2020

Item		2013	2016	2020
Improvement	Access to finance	10.4	13.2	8.4
	Access to land	0.6	1.1	0.2
	Crime, theft and disorder	4.4	2.9	0.5
	Electricity	9.2	5.9	3.1
	Labour regulations	2.4	4.1	2.1
	Political instability	48.8	33.8	17.4
Stability	Courts	0.2	0.2	0.2
Deterioration	Business licensing and permits	5.1	8.2	5.8
	Corruption	5.5	6.6	14.6
	Customs and trade regulations	0.7	4.6	4.7
	Inadequately educated workforce	1.8	4.4	2.2
	Practices of the informal sector	4.4	3.1	8.7
	Tax administration	1.2	1.9	6.3
	Tax rates	3.9	8.7	24.4
	Transportation	1.3	1.3	1.5

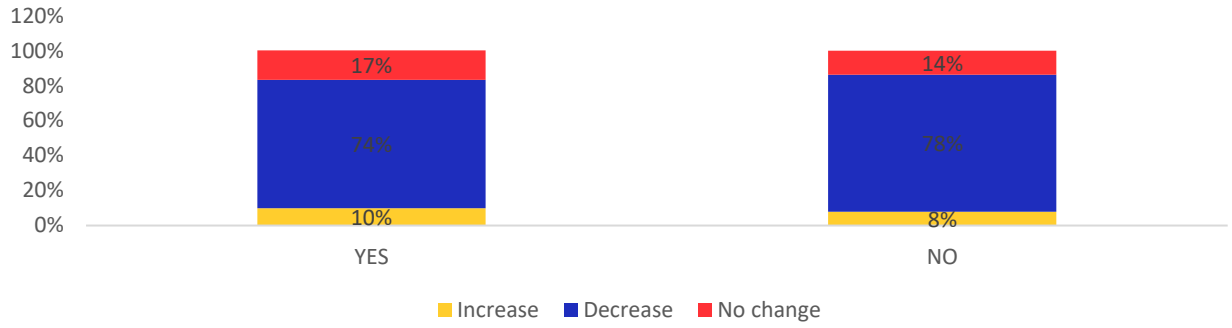
Source: Zaki (2021)
Note: Percentage of firms that identified each variable as the biggest constraint

2.3.2 COVID-19 Impact on SMEs

Following the real sector and the labour market developments, SMEs were also adversely impacted by the pandemic. This section relies mainly on the ILO/ERF (ERF) COVID MENA Monitor. It is based on rapid phone surveys, including enterprise and household data with several questions assessing the impact of the health crisis[11]. Figure 14 shows that exporters and non-exporters, in general, experienced a revenue decrease of 74% and 78%, respectively.

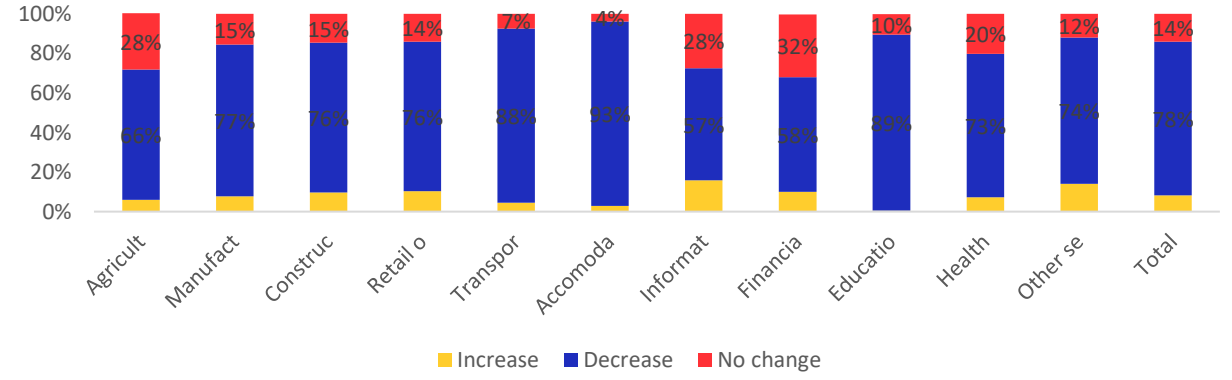
At the sector level, the steepest declines were observed in the accommodation and transportation sectors (tourism-related), education (given the shift to online learning) and the manufacturing sector (see Figure 15). When an enterprise size is taken into consideration, Figure 16 shows that the sharpest falls are observed for small enterprises (80% of respondents witnessed a decline in revenues), followed by medium (79%), then micro (78%) and large ones (71%). This shows to what extent non-large enterprises are more vulnerable, given that they incurred a higher cost because of the pandemic.

▶ **Figure 14: Enterprises' Revenue Change due to COVID by Export Status**



Source: Authors' own elaboration using the ILO/ERF COVID Monitor

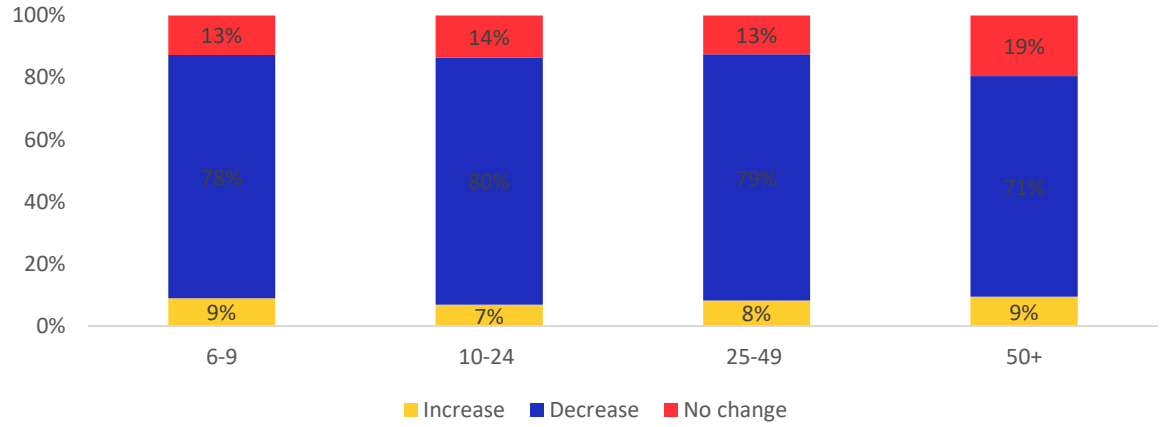
▶ **Figure 15: Enterprises' Revenue Change due to COVID by Economic Activity**



Source: Authors' own elaboration using the ILO/ERF COVID Monitor

[11] For the sake of good representativeness, a random digit dialling (RDD) strategy was adopted. Indeed, it refers to dialling random numbers and, within the range of valid numbers, up to three attempts are done if a phone number was not picked up/answered, was disconnected or busy, or picked up but could not complete the interview at that time. Samples were stratified by country-specific market shares of mobile operators. The sample is designed to cover at least 2000 unique households and individuals.

▶ **Figure 16: Enterprises' Revenue Change due to COVID by Enterprise Size**



Source: Authors' own elaboration using the ILO/ERF COVID Monitor
Note: Enterprises are divided into four types based on the number of employees (6-9, 10-24, 25- 49 and +50)

In a nutshell, this section shows that Egypt's trade is moderately concentrated in some sectors (mainly fuels). A similar observation holds for FDI. Moreover, while employment is mainly concentrated in the services sector, unemployment figures are particularly high for women and youth. In terms of the pandemic impact, whereas males' unemployment rates have increased compared to female one, SMEs were more affected than large ones.

3. Policy Review and Debates

3.1 Evolution of Investment and Industrial Policies

Alongside the macroeconomic reforms that were previously mentioned, some institutional reforms targeting domestic and foreign investments were introduced. In 2014, all investment-related laws and regulations were reviewed, and burdensome regulations were eliminated. At the competition policy level, amendments to the Law No. 3 of 2005 on the Protection of Competition and the Prohibition of Monopolistic Practices were introduced and the role of the Egyptian Competition Authority (ECA) was reinforced (Youssef and Zaki, 2019). In 2017, a new Investment Law was issued under No. 72 of 2017. This new law offers further incentives, including free land allocation for investors in strategic sectors and under specific conditions, and a flexible quota of foreign workers per an economic unit. Additional special incentives were granted to investments in underdeveloped areas, labour-intensive sectors, export-oriented activities and investments targeting environment protection, healthcare, technical education and scientific research. Finally, SMEs were entitled to the incentives stipulated by the Law.

More specifically, in 2017, the Ministry of Trade and Industry issued a strategy to improve the industrial competitiveness of the Egyptian economy. This strategy is integrated with the Sustainable Development Strategy (SDS)-Egypt's vision 2030 and is based on five pillars: industrial development; MSMEs and entrepreneurship development; exports development; technical and vocational education and training upgrade; and governance and institutional development. Thus, it sets six goals, namely, to increase the annual industrial growth rate to 8%; increase the contribution rate of industrial product to Gross Domestic Product (GDP) from 18% to 21%; increase the MSMEs sector's contribution to GDP; increase the growth rate of exports to 10% annually; provide three million decent and productive job opportunities; and enhance institutional development.

Yet, in 2019, before the pandemic shock, exports increased by only 4.8% (in real terms) and an average of 6.9% in the period 2015-2019 despite the currency devaluation that took place in 2016. As it has been shown before, Zaki et al. (2019) show that the weak effect of devaluation can be explained by inelastic imports, given that 75% of imported goods are either intermediate, investment, raw materials or fuel «necessary» for both production and export. Moreover, as it will be shown later, the private sector still faces several challenges, which affect its investment, production, and exports. This is confirmed by the data of the Ministry of Planning and Economic Development that shows that the share of the manufacturing sector (excluding oil industries) to GDP decreased slightly from 13% to 12% between 2015 and 2019.

At the same time, manufactured exports of merchandise exports decreased from 51.6% in 2015 to 45.2% in 2019. Moreover, FDI flows have a concomitant effect on trade and industry since they remained mainly concentrated in extractive industries (see Figure 1) despite an increase of those in the manufacturing sector from 2.2% in 2015 to 5.1% in 2019. This explains, at the implementation level, why this strategy did not significantly improve Egypt's industrial and external competitiveness.

More recently, several ministries have initiated a series of projects in order to promote the industrial policy and generate more jobs. First, in line with "Egypt's Vision 2030", a new strategy has been developed by focusing on some priority industries that include tech-intensive manufacturing,

agriculture, and ICT. In fact, the Cabinet argued that these sectors are key to boost exports, create jobs and encourage the growth of SMEs in sectors where Egypt can have a significant export potential.

Second, in January 2021, the Ministry of Planning and Economic Development launched the "Decent Life" initiative. The initiative first phase targeted the poorest and most vulnerable 377 villages, where the poverty rate exceeds 70%, with a total number of 756 thousand families (three million individuals) in 11 governorates. The second phase will target villages whose poverty rate ranges between 50% and 70% and the last phase for villages with a poverty rate lower than 50%. From a development perspective, this initiative is based on several pillars, mainly developing infrastructure services; providing the poorest villages with increased access to the basic services such as health, education, water, and sanitation; and establishing micro-projects for those most in need.

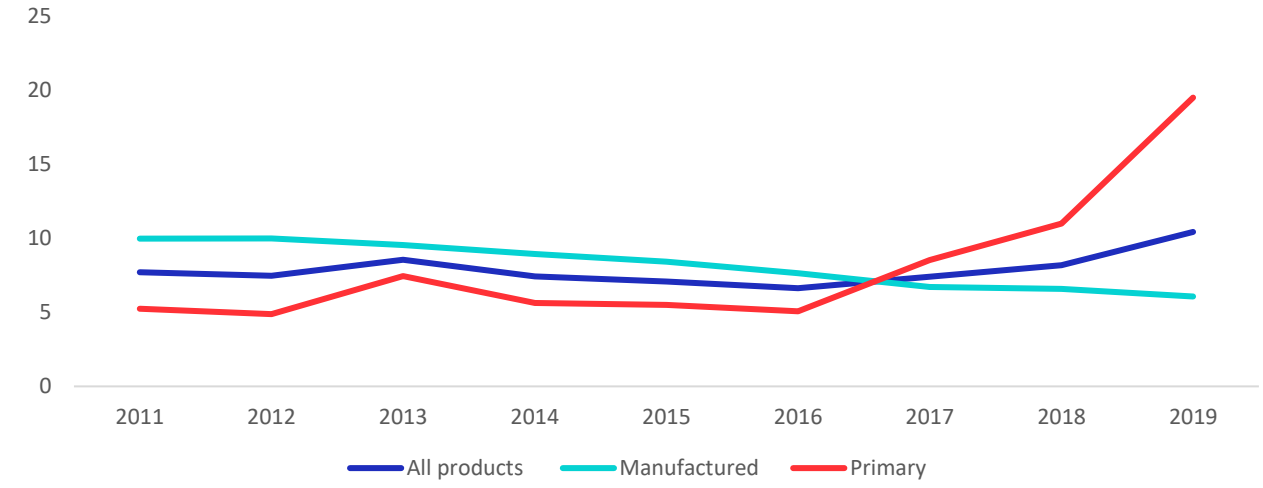
Thus, it should improve living-standards, invest in human capital, reduce poverty and protect vulnerable people. Yet, from a labour market perspective, more efforts will be needed to avoid creating short-term jobs that will be highly dependent on the initiative. More recently, the Ministry of Planning launched in April 2021 a structural reforms program that enhances the efficiency of the labour market and technical and vocational education and training. Moreover, it identified several dimensions required for the development of the institutional framework in order to promote the role of the private sector. More specifically, it targets creating a supportive and enabling environment for competition; facilitating and developing trade by removing obstacles; and upgrading the transport and logistics sectors.

Third, to develop the vocational education system, the Ministry of Education is currently enlisting the private sector to invest in establishing 100 vocational schools by 2030. This should help improve the skills of workers, needed for a more competitive industrial sector. In fact, as highlighted by Aboushady and Zaki (2021), more open trade policies and investment incentives will increase the demand for skilled workers to help face fierce competition in international markets. Considering that most products exported by Egypt are intensive in skilled blue-collar workers, these steps towards enhancing the quality of vocational training is indispensable.

3.2 Evolution of Trade Policies

Egypt's trade policy is generally characterized by relatively low tariffs and fairly high NTMs. Figure 17 displays the evolution of the applied tariff for both primary and manufacturing sectors. While tariffs in the manufacturing sectors decreased up to 6% in 2019, they increased for the primary sectors from 5.1% in 2016 to 19.5% in 2019.

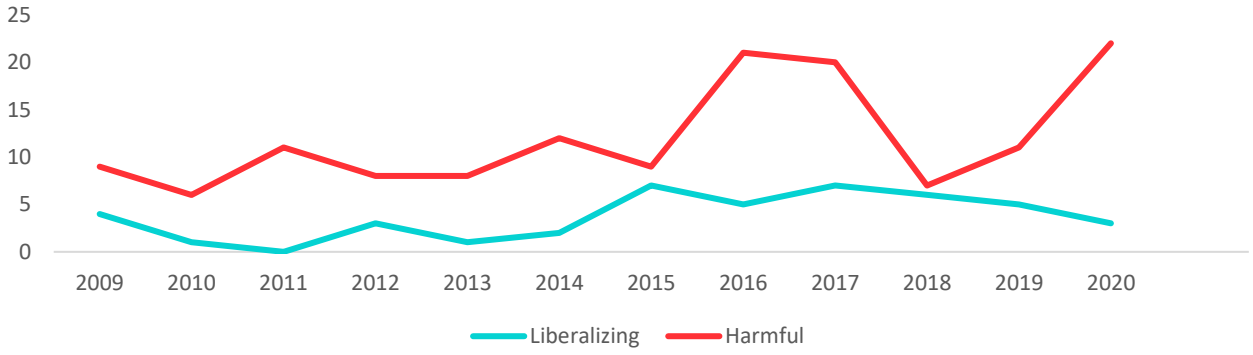
▶ **Figure17 : Harmful Measures by Trade Partners**



Source: World Development Indicators

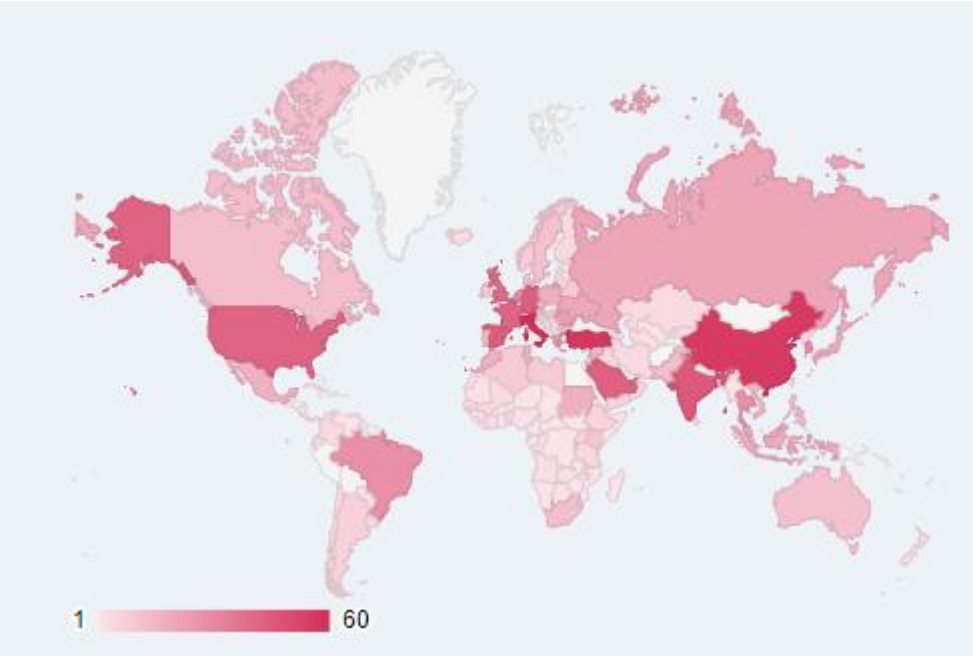
In addition to such high tariffs, Figure 18 shows two opposite trends since 2017 with harmful measures increasing and liberalizing ones decreasing, as per the Global Trade Alert data with most of the measures imposed by Egypt affecting China, the USA, and Turkey and to a lesser extent the EU and Russia (see Figure 19). Moreover, it is important to note that the goods imported from Egypt are also confronted with several NTBs making Egypt more protectionist. This includes for instance the automotive tax incentive scheme (internal taxation performance requirements, including local content requirement), standards and other technical requirements related to the imports of timber wood leading to their refusal, quantitative restrictions related to imports of agriculture and fisheries, and restrictive labelling requirements for ceramics.

▶ **Figure18 : Liberalizing and Harmful Measures**



Source: Global Trade Alert database

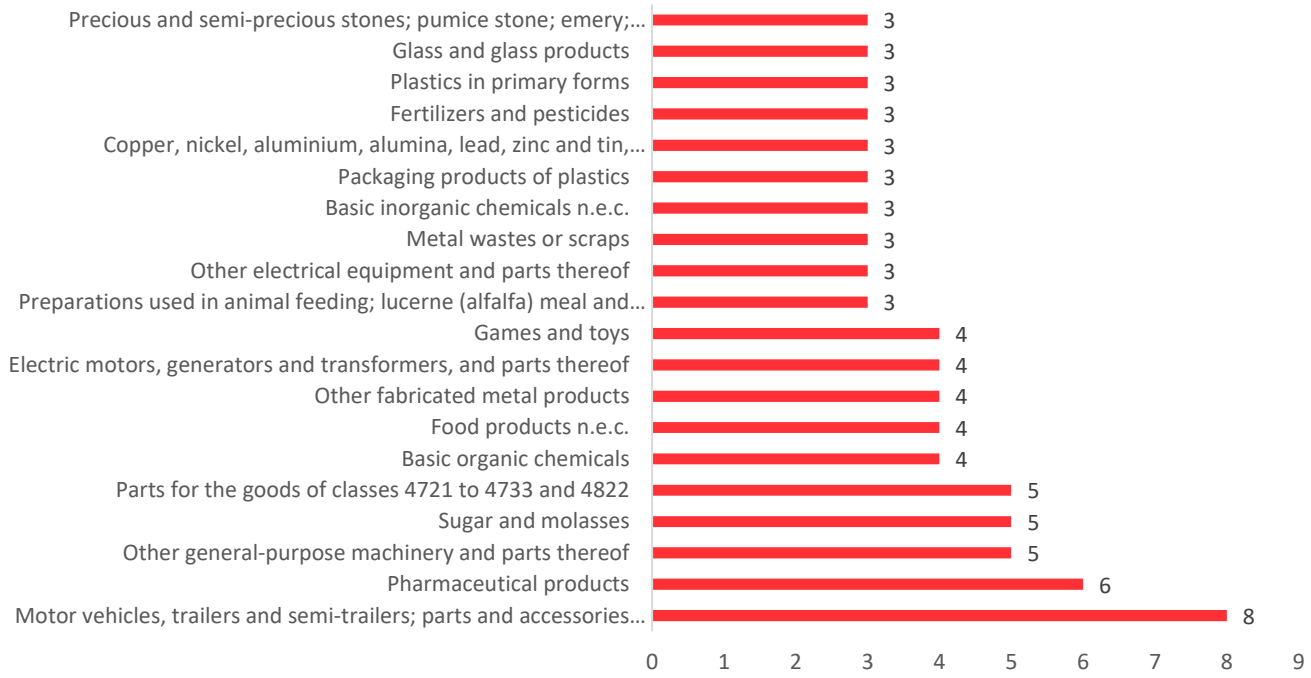
▶ **Figure19 : Harmful Measures by Trade Partners**



Source: Global Trade Alert database

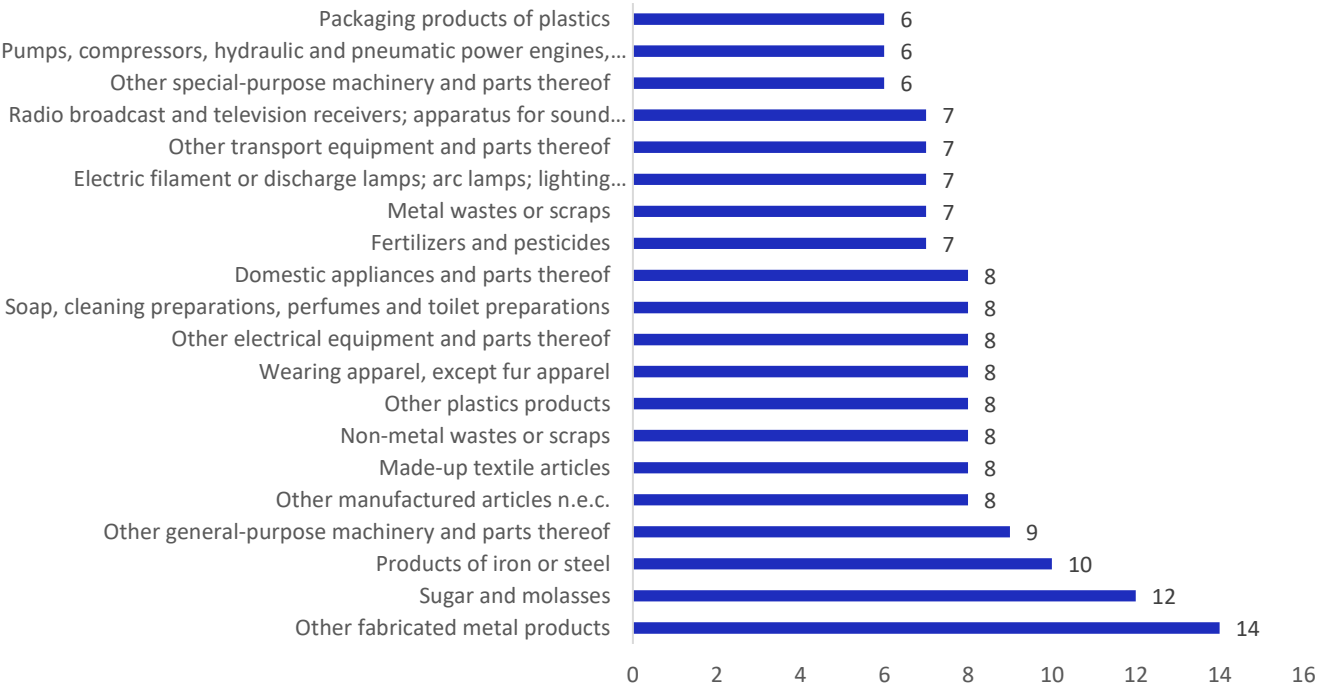
At the sector level, there is also an important heterogeneity. Figures 20 and 21 display liberalizing and harmful measures by product. In fact, liberalizing measures were mainly observed for the automotive industry, pharmaceuticals, electrical equipment, fertilizers and some metals. In contrast, among the harmful measures, and because of the health crisis, the Ministry of Trade and Industry has extended an export ban on surgical masks and rubbing alcohol that was imposed in March 2021 to ensure there is enough supply to meet local demand. Among the other sectors that witnessed some protectionist measures were fabricated metals, sugar and molasses, and iron and steel ranked first (see Figure 21).

▶ Figure 20: Liberalizing Measures by Sector



Source: Global Trade Alert database

▶ Figure 21:Harmful Measures by Sector

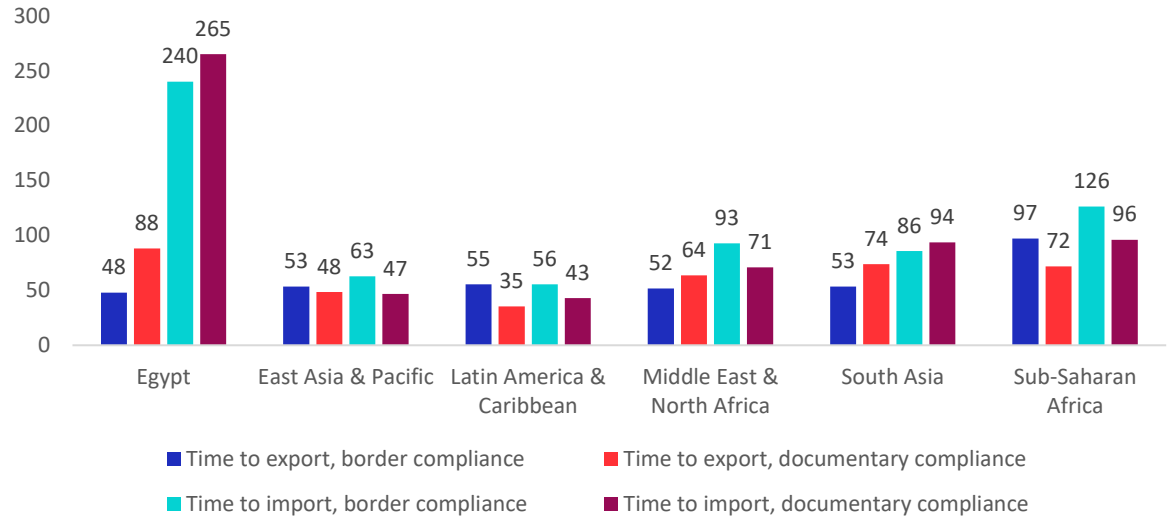


Source: Global Trade Alert database

Yet, to promote exports, several recent initiatives and projects have been launched by the Ministry of Trade. First, an export council has been resurrected in order to oversee Egypt's exports. This council includes the President, the Prime Minister, the CBE Governor and several cabinet ministers. This is in line with the objective that has been announced recently by the President of the Republic in order to increase Egypt's exports to USD 100 billion. This council will mainly identify the institutional reforms required to improve exports, determine new export markets, and supervise the existing export support programs.

Second, a new export subsidies scheme has been recently announced with a special focus on some sectors targeting exporters in the automotive, ceramics, pharmaceuticals, electronics, and chemicals industries, that are rather capital- intensive, which might affect their ability to generate more jobs. The program will be implemented for three years as of July 2021 for most eligible industries, while the automotive sector subsidy program will run for seven years. Generally, export subsidies are based on cash pay-outs to exporters, based on the volume of their sales. Among the other incentives included in this new scheme, one can cite: a 50% increase in subsidies for exports going to the African market; a subsidy of up to 80% of shipping fees (in order to promote trade with Africa); a 50% increase from the basic rate for Upper Egypt, border governorates, the Rubiki industrial zone and Damietta Furniture City; and finally, an additional 2% subsidy rate for exports bearing an Egyptian brand. Projects established in the SCZONE will be eligible for the program. The bylaws related to the implementation of this new scheme have not been announced yet. However, they have to solve one of the important issues that characterized the old system related to the non-transparency of the reimbursement procedure (via cash and non-cash incentives). Third, in order to facilitate trade, the Egyptian Customs Authority has launched NAFEZA (window in Arabic) being the National Single Window for Foreign Trade Facilitation. This will help modernize and automate customs administration, simplify procedures, and reduce clearance time. Figure 22 shows that Egypt's time to export or to import is generally higher than other regions' average, especially when it comes to documentary compliance even though Egypt's time to export is slightly lower than the MENA region average. Thus, this initiative should improve trade facilitation and make trade easier.

▶ Figure 22: Time to Export and to Import – 2019 (hours)



Source: Doing Business Dataset

Fourth, the CBE will launch a new export credit risk guarantee company (worth USD 600 million), aiming at protecting Egyptian businesses exporting to Africa. This initiative is done jointly with the African Export-Import Bank (Afreximbank) that concluded that the lack of financial services and adequate information, high levels of risk and high financing costs, are the main impediments that affect exporters to Africa.

3.3 Evolution of Employment Policies

Not all countries have separate and explicit national employment policies (NEPs), some countries incorporate employment measures in national development plans or other national policies.

A large number of countries have formulated standalone employment policies over the past two decades. Certain countries have officially adopted a NEP while others are in the process of doing so. Other countries have adopted other types of NEPs, such as the integration of employment objectives in their national development plans or other targeted strategies such as youth, rural or informal employment strategies. This is the case of Egypt, which has action plans for youth employment. Other countries have neither initiated a process nor adopted a policy.

The January 2011 Revolution put in a very prominent place the issue of unemployment as the main preoccupation of Egyptian society, together with corruption and the lack of democracy. Prior to the revolution, Egypt did not have an approved policy or strategy for employment. However, a number of measures, action plans and labour market information systems are worth mentioning.

Egyptian Observatory for Education, Training and Employment: During the period 2006-2010, with the European Training Foundation (ETF) support, the Egyptian Observatory for Education, Training and Employment was created under the umbrella of the Egyptian Cabinet's Information and Decision Support Center (IDSC). A steering committee was formed to include representatives from the relevant ministries, the private sector and civil society in the Observatory. A concept of labour market observatory was developed, and a number of labour market analyses and capacity-building activities were carried out (e.g., seminars and workshops on labour market information system, two study visits for staff – to France and the Netherlands).

National Strategy for the Empowerment of Egyptian Women 2030: Endorsed in March 2017, the strategy adopts a rights-based approach and is grounded in the SDGs and Egypt's Sustainable Development Strategy 2030. The strategy promotes the leadership roles of women in both the public and private sectors and sets the target for women in senior management posts by 2030 at 30%.

Youth Employment National Action Plan 2010-2015: Youth have also benefited from such prominent actions. The Ministry of Manpower launched a comprehensive consultative process in May 2009, with the support of the ILO, GIZ and the UN, to develop a youth action plan. This plan addresses the promotion of youth inclusion at its broadest level. More specifically, this plan aimed to reduce youth unemployment and provide decent and productive jobs. Its main objectives are to raise youth employability, to provide more job opportunities in key economic sectors and to resolve the mismatch between labour demand and supply by improving labour market policies and programs.

4. Institutional Mechanisms

The objective of this section is to show the institutional mechanisms behind the conception and implementation of trade and investment policies by examining Egyptian stances in charge of them. Before presenting these institutions, three remarks are worthwhile to be mentioned. First, whereas these stances are numerous, the process of trade and investment policy making seems to be weakly coordinated with some redundancies between the different institutions. Second, as it will be shown, the role of the civil society is rather limited. Third, a broad disconnect is observed between investment and trade policies while, in fact, they should have been much more correlated by mainstreaming trade policy in the investment one.

4.1 Investment Policies

While at the investment level, the National Investment Bank (NIB) is in charge of public investments, the Micro, Small and Medium Enterprises Development Agency (MSMEDA) focuses more on investments by SMEs and the General Authority for Investment and Free Zones (GAFI) focuses on private and foreign ones.

4.1.1 National Investment Bank

The National Investment Bank (NIB) was established in 1980 to finance public projects, included in the general plan for economic and social development of the state. Thus, NIB contributes to the capital of those projects or provides them with loans or other incentives and follows up on the implementation of those projects. These investments have been implemented in the following fields: electric stations; electricity transmission and distribution networks; water and sewage stations and networks; roads; bridges; railways; ports; agriculture; irrigation; services; housing; new cities; and mining projects. NIB aims to accumulate local savings and direct them to investment for the purpose of financing the projects of the national plan for economic and social development. NIB main clientele includes: the central government, public economic authorities, and local administrations (governorates).

4.1.2 General Authority for Free Zones and Investment

The General Authority for Free Zones and Investment (GAFI) is a public authority directly affiliated to the Prime Minister. GAFI main objective is to promote investment opportunities in Egypt. It also supports investment incentives and is in charge of the administrative and legislative reforms required for investment promotion. GAFI also developed the “Investment Map”, which is an interactive tool that presents different investment opportunities in Egypt by governorates, sectors, industrial zones, investment zones, free zones, and logistics zones.

4.1.3 Micro, Small and Medium Enterprises Development Agency

While GAFI promotes investments in general, the Micro, Small and Medium Enterprises Development Agency (MSMEDA) was established in 2017 to replace the Social Fund for Development (SFD) established in 1991. MSMEDA primary role is to coordinate and unify efforts exerted by different parties interested in MSMEs. The Agency operates through a network of regional branches

spread across the governorates (33 branches that include one-stop-shop units), in addition to partnership with around 600 non-governmental organization (NGOs) concerned with developing micro-enterprises and 1800 bank branches. While providing funds is necessary, it is not sufficient, given the lack of providing technical assistance to entrepreneurs (in terms of business and expansion plans, exports requirements, compliance with international standards, and others).

4.2 Trade Policies

4.2.1 Ministry of Trade and Industry

Trade policies are mainly developed by the Ministry of Trade and Industry. The Ministry consists of different sub-entities that are in charge of specific tasks, including implementing trade agreements, promoting exports, determining the products standards and rules, and others.

4.2.1.1 Agreements and Remedies:

Trade Agreements Sector:

The Trade Agreements Sector (TAS) was established in 2002 to coordinate different issues related to the WTO, especially those related to the Doha Development Round. It has several tasks such as: ensuring improved access for Egyptian products abroad, defending Egyptian producers against trading partners' unfair trade practices or surges in imports that cause serious injury to local producers, and implementing different partnership agreements. TAS also ensures that Egypt complies with its trade agreement obligations.

Trade Remedies Sector:

The role of the Trade Remedies Sector (TRS) is to protect the national economy from the effects of harmful practices (anti-dumping, subsidy and preventive measures) and to impose compensatory measures to protect the national industry as long as complaints are supported by documents and evidence.

4.2.1.2 Exports:

Export Development Bank of Egypt:

The Export Development Bank of Egypt (EBE) was established in 1983 as a financial institution to promote Egyptian exports. EBE facilitates the access of Egyptian products to different markets through the extension of finance of export. Moreover, it has a special interest in supporting and developing the SME's sector to help them export. Thus, it has tailored loans for large and medium corporate loans and small ones.

Egyptian Corporation for Export Guarantee:

The Egyptian Corporation for Export Guarantee (ECGE) was established in 1992 as an Egyptian joint stock company with an authorized and paid in capital of 250 million Egyptian Pounds. Its main task is to support companies expanding their business and growing their sales, by providing them with trade receivables management solutions such as trade credit insurance, credit information, debt collection and trade finance.

Export Development Authority:
The role of Export Development Authority is to represent an export hub that includes all export related entities to increase and promote Egyptian exports through the electronic marketing, promotion means, international exhibitions, trade missions, B2B meetings, specialized training and technical support.

Export Development Fund:

The Export Development Fund helps producers increase their export capabilities by conducting technical and marketing research, establishing testing laboratories, technical specification certification centres, and marketing research institutes. It also reduces the financing burdens on exporters. For instance, during the pandemic, it allocated LE 4.6 billion to pay the overdue dues to the exporting companies. Several initiatives were implemented to provide exporting firms with cash liquidity to enable them to fulfil their obligations towards their clients and keep employment.

Exports Councils:

The Exports Councils aim at representing the exporters' community at both the national and international levels, proposing export plans in line with the State's objectives and strategies, and overcoming the challenges facing the exporting community. They also work with the Ministry of Trade and Industry in order to propose programs and projects to promote exports. Currently, there are 13 export councils: food, engineering, chemical, printing, leather, handicrafts, furniture, building materials, real estate investment, agricultural crops, medical industries, spinning and weaving and another for ready-made clothes.

General Organization for Import and Export Control:

The General Organization for Import and Export Control (GOEIC) was established in 1999 under the Ministry of Trade and Industry in order to control exports and imports, keep registers of importers, exporters, and commercial agents, and issue the certificates of origin for goods of Egyptian origin and of acquired Egyptian origin.

4.2.1.3 Standards:

In general, four main organizations are in charge of examining and accrediting manufacturing products: the GOEIC that examines final products only, the Chemical Administration that examines inputs as well, the Armed Forces for strategic goods and explosives, the National Quality Institute (NQI) (has not been officially accredited).

Chemical Administration:
The Chemical Administration is the government laboratory approved by all official authorities. Its scope of work includes examination, testing and analysis of all natural raw materials, industrial and agricultural products, in addition to providing technical advice.

Egyptian Organization for Standardization and Quality:

The Egyptian Organization for Standardization and Quality (EOS) is responsible for issuing the standards that are in line with international references. EOS has a directory with all the issued standards and statistics concerning the number of laboratories and type of products investigated, as well as type of tests conducted.

Yet, it is important to note that the management of the laboratories is independent from the management of EOS.

Egyptian Accreditation Council:

The Egyptian Accreditation Council (EGAC) is recognized by the Presidential Decree No. 312/1996 as the sole national body for the assessment and accreditation of conformity assessment bodies performing testing/calibration laboratories, inspection and certification of products and systems as well as personnel. It is a governmental body affiliated to the Ministry of Trade and Industry. There are three main activities provided by EGAC: testing, calibration and certification. EGAC is headed by the Minister of Trade and Industry and governed by a board of 14 members, representing all stakeholders and concerned bodies.

National Quality Institute:

The National Quality Institute (NQI) is a public service body, responsible for the deployment and improvement of the quality culture, concepts, and activities in industrial or services sectors that complies with international standards and criteria. Its main tasks are to provide training, consultation and technical support services that are not available in the services provided by other parties. This is in addition to reviewing quality systems in industrial and services organizations in accordance with local and international criteria and standards and developing programs to support capacity for production and service units in different quality areas. It also issues validation certificates for training and consultation providers in Egypt.

4.2.2 Private Sector Associations

Federation of Egyptian Industries:

The Federation of Egyptian Industries (FEI) is the country's largest employers' association, including 19 active sectoral industrial chambers as members, representing more than 102,000 industrial enterprises out of which more than 90% belong to the private sector. Its main role is to support Egyptian industries, advocate the common interests of its members and defend their positions towards governmental and legislative bodies, as well as other local and international associations.

Federation of Egyptian Banks:

The Federation of Egyptian Banks (FEB) has been established as a non-profit independent entity that aims at enhancing the performance of the banking sector in Egypt, adopting unified rules and procedures, guaranteeing free competition among banks, strengthening cooperation between the Federation and the CBE and providing an expert opinion regarding draft laws and suggesting amendments of current legislations related to the banking sector.

Egyptian Federation of Investors Associations:

The Egyptian Federation of Investors Associations (EFIA) is a non-governmental and non-profit organization and works under the Law No. 84 of 2002 on Civil Societies and Institutions. It represents and supports the business community, encourages investment, defends the interests of investors, and contributes to solving their problems with the authorities.

Egyptian Trade Union Federation:

The Egyptian Trade Union Federation (ETUF) was established in 1957 and has a long history in defending workers' rights in Egypt. The ETUF is the sole trade union federation and represents 2.5 million workers in 23 unions.

The above mapping of different institutions reveals four main conclusions. First, despite the existence of several institutions, especially at the trade level, some of them have overlapping roles such as the Export Development Fund and the Export Development Authority. Second, despite numerous export institutions that help SMEs, the performance of the latter did not improve and a very small minority manage to export (around 6% of SMEs). This raises some questions regarding the capacity (availability of resources and effectiveness of regulations) and the performance (how they use such capacities internally) of these different stakeholders. Third, more coordination is needed between different institutions in order to have a more comprehensive approach towards trade. Moreover, the role of tripartite social dialogue for policy making is of particular importance in order to have a more "bottom-up" approach where all stakeholders are involved. Fourth, at the investment level, the difference between various institutions is clear and the overlapping is less pronounced compared to trade policies.

5. Policy Challenges

From a policy perspective, several reforms are needed to strengthen the role of the private sector, being the main driver of industrial competitiveness and job creation, and the role of the state as a catalyst for private sector development.

First, at the industry level, a clearer vision for the development of the industrial sector is needed. This strategy has to be better linked to the trade policy in order to promote high value added and labour-intensive sectors, linked to a high world demand. Yet, most of the policy instruments in place favour capital intensive industries, which affects the ability of the economy to generate more jobs and make good use of capital and labour endowments.

Second, at the competition level, there is a need to develop a transparent state ownership policy and governance framework. Moreover, there is a need to limit exclusions from laws and tax exemptions for state actors. In addition, a clear separation of the roles of state actors as regulators from operators is required to resolve potential conflicts of interest. Finally, it is important to implement effectively the principle of competitive neutrality to ensure that state actors operate under the same conditions as those governing private sector enterprises, including by strengthening the institutional mandate of the ECA. This will increase private investment.

Third, from a macroeconomic perspective, it is important to note that Egypt's currency and price levels (including wages) are hiked up by different rents such as remittances of Egyptian workers abroad, Suez Canal revenues, and oil rents. This skews overall the economy away from local production, and partially explains labour underutilisation.

From a policy perspective, several challenges are still in place and have to be addressed at both the trade and investment levels.

5.1 Investment Challenges

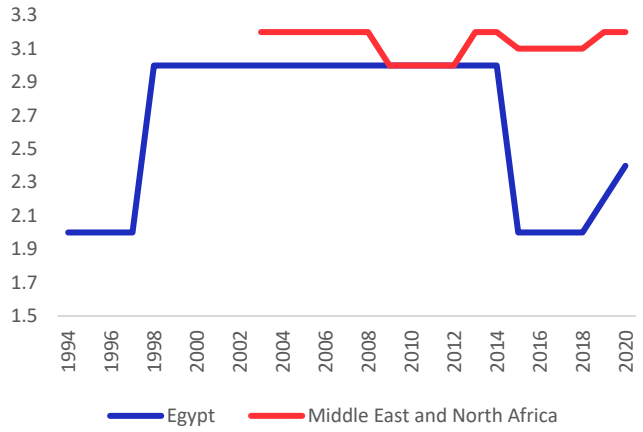
At the investment level, three important challenges have to be addressed to strengthen the role of the private sector.

First, at the industrial policy level, a clearer vision for the development of the industrial sector is needed. This strategy has to be better linked to the trade policy in order to promote high value-added and labour-intensive sectors, linked to a high world demand. Second, to promote both domestic and foreign investments, several reforms are needed at the competition level. In fact, Figure 23 shows that the freedom to compete index has deteriorated starting 2015 and remained lower than the MENA average (Figure 23a). Moreover, the government policies to promote competition index declined sharply starting 2015 with a slight increase afterwards (Figure 23b). Similar developments are observed in Figure 1c where the index of the degree to which state ownership and control distorts the business environment has deteriorated since 2012 and remained constant afterwards. Nonetheless, price controls declined since the extent of price controls was rather low (and the lower than the MENA region average). Therefore, there is a need to develop a more transparent state ownership policy and governance framework. Moreover, a clear separation of the roles of state actors as regulators from operators is required to resolve potential conflicts of interest.

Finally, it is important to implement effectively the principle of competitive neutrality to ensure that state actors operate under the same conditions as those governing private sector enterprises, including by strengthening the institutional mandate of the ECA.

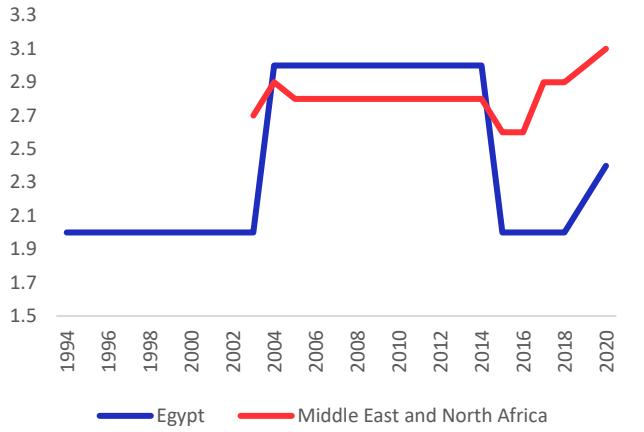
▶ Figure 23: EIU Competition Related Indices, Egypt and MENA Region

(a) Freedom to Compete (5=high)



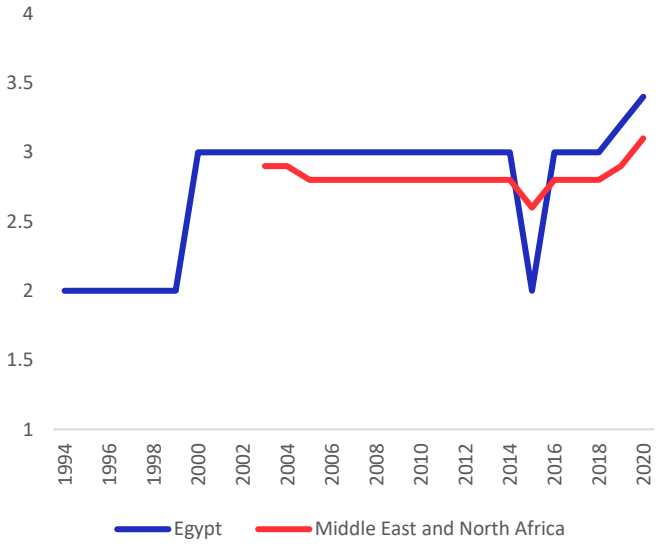
Note: The Economist Intelligence Unit (EIU) business environment rankings quantify the attractiveness of the business environment. The freedom to compete rating scores countries between 1 and 5, with 1 being "very low" and 5 being "very high".

(b) Promotion of Competition (5=high)



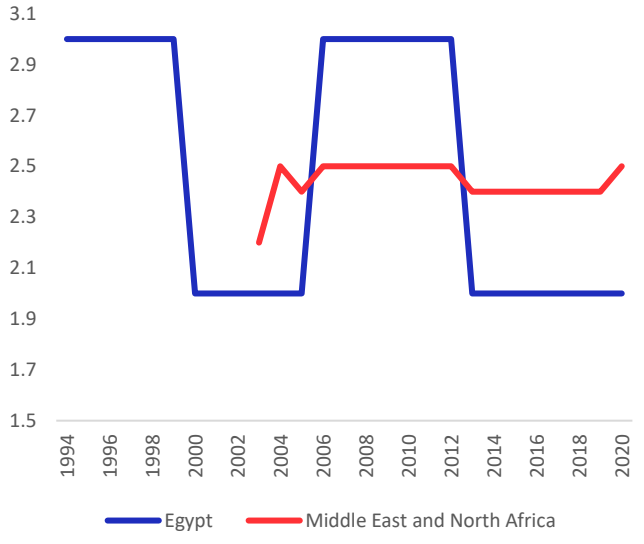
Note: The EIU's promotion of competition rating scores countries between 1 and 5 on government policy to promote competition, with 1 being "very poor" and 5 being "very good".

(c) Price Controls (5=few)



Note: The EIU's business environment rankings quantify the attractiveness of the business environment. The price controls rating scores countries between 1 and 5 on the extent of price controls, with 1 being "extensive" and 5 being "very few or none".

(d) State Ownership/Control (5=low)

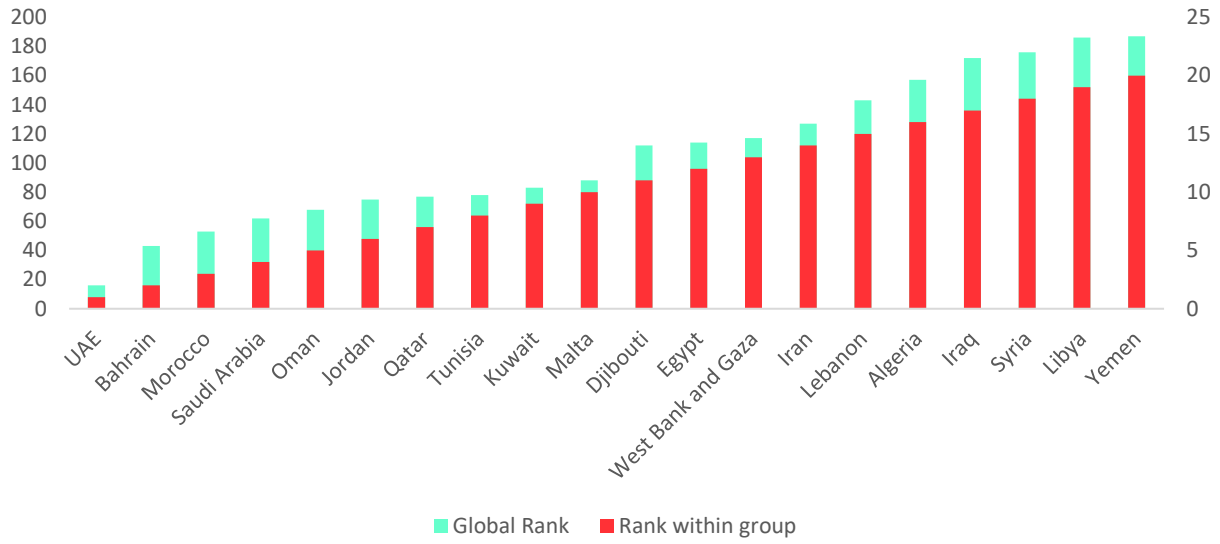


Note: The EIU's state ownership rating scores countries between 1 and 5 on the degree to which state ownership and control distorts the business environment, with 1 being "very high" and 5 being "very low".

Source: The EIU

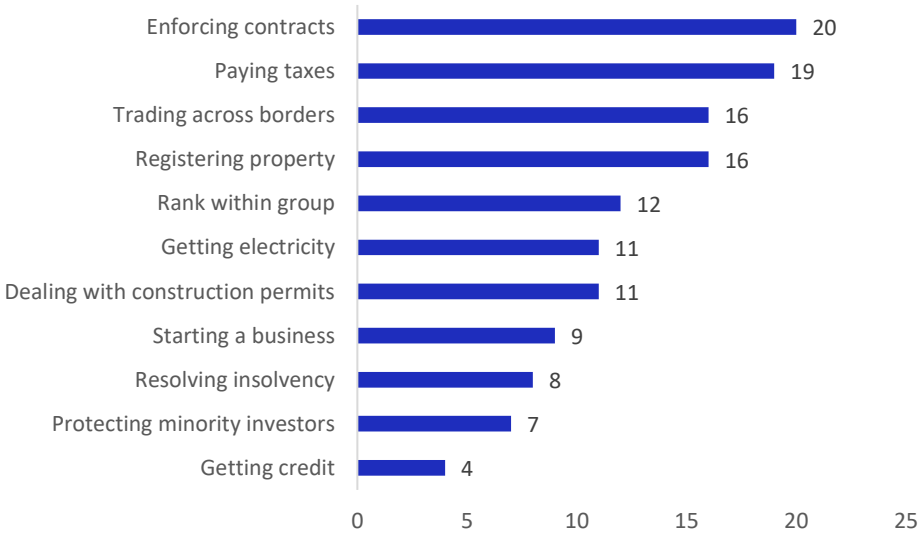
Third, despite several reforms, the investment climate is still suffering several bottlenecks. Figure 24 shows that Egypt is ranked 12 at the MENA region level after other comparator economies such as Tunisia, Morocco and Jordan. Moreover, a deeper look at the investment climate variables shows that it ranks worse in terms of registering property, trading across borders, paying taxes and enforcing contracts (see Figure 25). This is why improving the administrative procedures and reducing bureaucracy and red tape costs which shall increase incentives for producers is indispensable. In addition, more efforts are needed to improve the judicial system's impartiality, credibility, and effectiveness of dispute resolution process.

▶ Figure 24: Ranking of Ease of Doing Business by Countries



Source: Authors' elaboration using the Doing Business dataset

▶ Figure 25: Ranking of Ease of Doing Business by Procedures



Source: Authors' elaboration using the Doing Business dataset

Finally, for SMEs, more FDI have to be channelled into the manufacturing sector in order to develop clusters and help SMEs expand, become exporters and sustain their activity. Moreover, beyond the pandemic, the ILO (2021b) identified four principles that should guide policymakers in their reforms when it comes to SMEs. First, it will be crucial to strengthen the private sector's capacity to respond to different disruptions through a more conducive ecosystem and business environment (reducing compliance cost, reviewing insolvency provisions, improving workers conditions, simplifying administrative procedures, digitalizing the business processes). Second, it is important to have timely and comprehensive data in order to assess the impact of the pandemic on SMEs. Third, consulting with different market players (civil society, private sector, international donors, and the government) will be crucial in the recovery planning. Fourth, it is significant to mainstream digitalization for SMEs through e-commerce, digitalization of the business process, e-finance solutions, and others.

5.2 Trade Challenges

In order to improve exports and trade performance of Egypt, several challenges have to be considered as well.

First, providing an educated workforce and improving the matching between the education system and the labour market requirements.

Second, at the product level, selection of priority sectors should be based on statistical, empirical or evidence-based work, and not on discretionary decisions by policy makers or on the easiness of applying the required changes in laws, technical sector regulations, standards, and accreditation, to be in harmony with those of the EU, without taking into consideration other important factors, such as – for example - the export potential of each sector, the world demand or the costs of reform.

Third, given the fact that Egyptian exports face a lot of NTMs both domestically and at the international levels, it is important to distinguish between technical and non-technical NTMs. In fact, technical ones can be imposed to protect human, animal, or plant life or health (such as sanitary and phytosanitary (SPS) measures and TBTs). Other non-technical measures include price controls, quantity controls, rules of origin, finance measures, and others. While the former deal with products' characteristics and are evidence-based, the latter are not necessarily justified. These technical NTMs can be addressed through improving the products' quality and meeting international standards. Since conformity assessment is related to both accreditation and market surveillance, identifying or creating an authority for market surveillance must be the first step to be taken into account. This will help exporters overcome such NTMs and thus avoid product rejection at the destination markets. In the same vein, increasing the number of accredited laboratories is a must since such laboratories are present for only three sectors (electrical equipment, chemicals and articles of iron and steel).

Fourth, trade facilitation remains an issue in Egypt. In fact, administrative barriers, time and cost to trade are higher when compared to other countries. In June 2021, the one-stop-shop system started at the country's largest ports in order to modernise and automate the customs system at some of Egypt's lands, seas, and airports. The Egyptian Customs Authority should coordinate between representatives of different agencies that will be present at the logistics centres such as the Ministry of Communications and Information Technology (MCIT), the National Food Safety Authority (NFSA),

and the GOEIC. Similar centres are to be built in the 10th of Ramadan and 6th of October cities, Quesna and Banha, to make the customs procedures easier.

Fifth, more reforms are needed in order to have more FDIs in the manufacturing sector to help develop RVCs or GVCs, reform the industrial sector and integrate SMEs in world markets. Integrating into RVCs or GVCs will help Egypt diversify and increase the complexity of its exports (Zaki, 2021). This will clearly increase job creation in the manufacturing sector and increase the demand for skilled labour (Ehab and Zaki, 2021).

Sixth, generally, trade and investment policies are implemented through a top-down approach given that decisions are developed at the ministry level. Yet, a more bottom-up approach is needed through regular meetings with different stakeholders to discuss recent policy updates, their needs and the required reforms.

Seventh, it is important to note that, at the trade agreements level, employment provisions are rarely included. In fact, among Egypt's trade agreements, no agreements include labour provisions except Egypt-EFTA and Egypt-Mercosur that just make an exclusive reference to "create employment opportunities" in the preamble and/or objectives (Raes and Sari, 2018 and 2021). Moreover, the EU-Egypt Association Agreement also makes such a broad reference in Article 40(2), stating that the EU-Egypt cooperation shall focus on areas that are likely to generate growth and employment opportunities. This is clearly not the case in other agreements between developed and developing countries or between only developing ones. Thus, it is crucial to better link trade to employment in order to mainstream employment policies in trade ones.

Finally, while Egypt liberalized its imports to a large extent, several NTMs have been imposed on Egypt's exports and imports. Bearing in mind that NTMs are less transparent, affect both exports and imports, and their protectionist effect is higher. This is why it is crucial to rationalize such measures, especially non-technical ones given that technical measures (SPS measures and TBTs) must be evidence-based.

Egypt should adopt targeted investment promotion policies to attract investments to harness targeted nearshoring opportunities to Europe (UN, 2020). On the transition to a preferred future of manufacturing in Egypt in 2025, the UN suggested taking decisive policy measures, mainly improving the ease of doing business and promoting investment and capitalizing on the successful practices of free trade zones and investment-zones. Egypt should ameliorate the business environment and upgrade human skills and firm capabilities, so that more and better employment opportunities are created in sectors with higher and growing productivity (World Bank, 2020). Consequently, improving the investment climate[12] in the country is considered indispensable for boosting GVCs (Dovis and Zaki, 2020), along with enhancing the capabilities and the fundamentals of the economy through investment in human capital and governance since they are a pre-requisite for an efficient integration into a regional or a GVC (Zaki, 2021b).

[12] In 2020, Egypt overall rank in doing business variables is 114 among 190 countries according to World Bank, Doing Business Online Dataset.

Conclusion

This report assessed the trade and investment developments and presented the primary features of FDI, trade, SMEs, and the labour market in Egypt. The impact of the COVID-19 pandemic on trade, investment, and the Egyptian labour market was analysed as well.

The main findings of this study revealed a significant difference in the untapped export potential in Egypt. While chemicals represent 18% of Egypt's exports, its untapped potential amounts to 61% of the country's total export potential. The horticulture sector has a lower contribution of 14% and a slightly lower untapped potential. Other sectors have a higher untapped potential and currently rank among the top priorities of the government (especially electrical equipment and electronics, machinery, and vehicles).

At the FDI level, more than 70% of the FDI net inflows are focused on the oil sector, compared to just 4% on the manufacturing industry. Considering this structure, whereas the petroleum sector is capital-intensive, it does not create a considerable number of jobs. Moreover, its extractive nature is related to a low value-added. Finally, it is not linked to technology transfer that can improve the overall productivity of the manufacturing sector. Attracting more FDIs to the manufacturing sector will clearly require better institutions and an improved investment climate.

Both trade and FDI have negatively been impacted by the COVID-19 pandemic, with exports seeing an actual drop of 13.5% in FY2020/21. For FDI, this crisis also affected Egypt in a significant way since inflows more than halved during the third quarter of FY2020/21. Weaker global trade is also expected to reduce Egypt's exports and revenues from the Suez Canal. While FDI is expected to decrease, it is likely to reach the pre-crisis levels only by June FY2021/22 (OECD, 2020).

About the Egyptian labour market, it is significant to underline that even though the unemployment rate, overall, has been decreasing since 2015, this rate is still particularly high for women and youth. Female participation in the labour force is considered low, accounting only for 24.4%. Remarkably, even with a decrease in the unemployment rate, the share of precarious jobs (working poverty, absence of a legal contract, pension or health coverage, or under-employment) has increased.

The COVID-19 pandemic has further accentuated long-standing challenges, with those most vulnerable and more exposed to unemployment and income losses. For employment to recover from this, recovery strategies need to be informed by the longer-term jobs and growth trends that are revealed in this report. The effect of the outbreak is expected to be particularly severe for people and enterprises in the informal sector. The government has supported irregular workers, including women, who lost their jobs due to the coronavirus (OECD, 2020). Following the labour market developments, SMEs in Egypt were also adversely affected by the pandemic.

Concerning the evolutions of investment and trade policies, several ministries have recently initiated a series of projects to promote industrial policy and generate more jobs. In addition, the initiative of "Haya Karima" (Decent Life), officially launched by the President in July 2021, is noteworthy since it is a demonstration of the political commitment toward the guiding principle of Agenda 2030: "Leave no one behind (LNOB)" and a manifestation of the localized development.

To develop the vocational education system, the Ministry of Education is currently enlisting the private sector to invest in establishing one hundred vocational schools by 2030. This should help improve the skills of workers that are needed for a more competitive industrial sector.

Egypt is seeking to liberalize its trade regime on a Most-Favoured-Nation (MFN) basis through WTO negotiations and unilateral tariff reductions, and on a preferential basis through reciprocal agreements with selected trading partners. On the other hand, to promote exports, several recent initiatives and projects have been launched by the Ministry of Trade and Industry. This is in line with the objective that has been announced recently by the President of the Republic to increase Egypt's exports to USD 100 billion.

To facilitate trade, the Egyptian Customs Authority has launched the National Single Window (NAFEZA) for Foreign Trade Facilitation. This will help modernize and automate customs administration, simplify procedures, and reduce clearance time. The CBE will launch a new export credit risk guarantee company (worth USD 600m), aiming at protecting Egyptian businesses exporting to Africa.

Regarding institutional mechanisms in terms of trade and investment policies, the analysis revealed that to have a more comprehensive approach toward trade, further coordination is needed between different institutions. At the investment level, the difference between various institutions is clear and the overlapping is less pronounced compared to trade policies.

Several challenges are still in place and must be addressed at both the trade and investment levels. Therefore, some grand challenges at the investment level must be faced in order to reinforce the role of the private sector, as the key driver for economic competitiveness and job creation, and the role of the government, as a stimulus for the development of the private sector. Specifically, a clearer vision linked to the development of the industrial sector is required. This strategy ought to be better connected to the trade policy to promote sectors that have a high value-added, are labour-intensive, and are linked to high world demand.

Moreover, various reforms are necessary at the competition level to promote both domestic and foreign investments. More recently, the repercussions of the COVID-19 pandemic are deeply affecting the Egyptian economy causing job and income losses. Despite the fact that the current crisis has disrupted the supply chains and the volume of international trade, and severely impacted investment, it has created for Egypt new nearshoring opportunities for Europe, which could further boost the export opportunities across different sectors. Other regions could also be explored. Egypt should adopt targeted investment promotion policies to attract investments and to harness targeted nearshoring opportunities in Europe (UN, 2020).

In the transition to a preferred future of manufacturing in Egypt in 2025, the United Nations suggested taking decisive policy measures, including improving the ease of doing business and promoting investment, and capitalizing on the successful practices of free trade zones and investment zones. Egypt should ameliorate the business environment and upgrade human skills and firm capabilities so that more and better employment opportunities are created in sectors with higher and growing productivity (World Bank, 2020). Consequently, improving the investment climate in the country is considered indispensable for boosting GVCs (Dovis and Zaki, 2020), along with enhancing the capabilities and the fundamentals of the economy through investment in human capital and governance since they are a prerequisite for efficient integration into an RVC or GVC (Zaki, 2021b).

At the trade level, certain difficulties have to be taken into consideration in order to improve the exports and trade performance of Egypt, especially providing an educated workforce and improving the matching between the education system and the labour market requirements. The selection of priority sectors should be based on statistical, empirical, or evidence-based work.

Creating an authority for market surveillance must be the first step to be considered since Egyptian exports face a lot of NTMs, both at the national and international levels. Finally, a more bottom-up approach, to implement trade and investment policies, is needed through regular meetings with different stakeholders, through tripartite social dialogue, to discuss recent policy updates, their necessities, and the required reforms. Ultimately, these interventions would optimize the quantity of jobs created in this country and ensure decent work for all.

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Appendix

Table 6. EU Projects in Egypt

Year of Approval	Project Title	Consortium of Finance Institutions	Sector	Total Project Cost (€ million)	EU Contribution (€ million)	Type of EU Support	Status	Construction of the Project Started?	EU-Financed Technical Assistance/ Guarantee/ Risk Capital Started?
2017	Fayoum Wastewater Expansion Programme	EBRD	Water, sanitation	456.49	38.09	Investment grant, technical assistance	Signed	No	Ongoing
2017	Kitchener Drain	EIB, EBRD	Environment	482.28	46.98	Investment grant, technical assistance	Signed	No	No
2017	Rehabilitation of Alexandria's Raml Tram	AFD	Transport	363.3	8.3	Technical assistance	Ongoing	No	No
2018	MSME Promotion Programme	KfW	Private sector	50.1	15.05	Investment grant, technical assistance	Signed	No	No
2018	Energy Efficiency and Upgrade Programme for the Suez Oil Processing Company	EBRD	Energy	171.5	13.5	Investment grant, technical assistance	Signed	Under construction	Completed
2018	Alexandria West Wastewater Treatment Plant (WWTP)	EIB	Water, sanitation	185.15	20.65	Investment grant	Signed	No	No
2019	4 E for Egypt: Excellence and Energy Efficiency in Education	KfW	Education	115.7	13.4	Investment grant, technical assistance	Approved	No	N/A
2019	Electricity Grid Reinforcement	EBRD	Energy	202.37	20.47	Investment grant, technical assistance	Signed	No	Design ongoing
2019	Green Economy Financing Facility II (GEFF II)	EBRD	Private sector	189.86	24.86	Investment grant, technical assistance	Approved	No	No

Source: Authors' own elaboration based on the European Commission data

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Contact Details

International Labour Organization
Route des Morillons 4
CH-1211 Geneva 22
Switzerland

E: METI@ilo.org
W: www.ilo.org/meti