

Increasing Openness and Fragile Competitiveness: The Case of Egypt

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ABSTRACT:

The proposed paper will deal with the increasing openness of the Egyptian economy in recent years and the impact such openness is having on enterprise competitiveness. Egypt has gone through a number of phases of economic reform since the early 1990s. The early phase, lasting approximately five years, witnessed a good pace of privatization and measures of trade liberalization. Then came a period of slower reform for political and social reasons that acted as constraints on the pace of reform. In contrast, reform – which essentially required more openness and greater commitments to trade and FDI liberalization – has been proceeding at a very rapid rate during the past two years or so, under a new cabinet that includes 3-4 leading pro-liberalisation senior ministers.

The paper will address issues pertaining to the positive and negative effects of increased openness on the economy and will identify the “fragility” of competitiveness in many sectors and how enterprises are coping with competitive challenges.

In the context of competitiveness, the paper will look into Egypt’s trade and FDI patterns with the EU as well as with the Arab region and Africa in view of Egypt’s traditional links with each of these regions. Special attention will be given to the impact of the *Association Agreement* with the EU and the challenges facing Egyptian industry and agriculture in this regard.

There are both market access and supply capacity issues that are hampering competitiveness and constraining the positive outcome of openness. Examples will be given to illustrate the issues to be raised in the paper. Agriculture is a case in point, but is not the only sector that is experiencing difficulties.

An interesting aspect is the impact of EU expansion on Egypt’s competitiveness, considering that Egypt used to have a series of more than 25 bilateral trade and payments agreements, many of which were signed with various “East European” countries, and these agreements governed trade flows in both directions for many years, with little participation by the then almost non-existent industrial private sector. How did the dismantlement of the Berlin Wall change such relationships? What changes in trade patterns with these countries are likely to occur after they have joined the EU: what trade diverting and creating effects could be expected as a result?

Another issue is the impact of Egypt’s interest in negotiating a free trade agreement with the United States on its trade with the EU. Assuming such an agreement is successfully negotiated during the next 12-18 months, which is by no means certain, what impact is it likely to have on future Egypt-EU trade and FDI?

While the paper will pay special attention to Egypt-EU issues, a more holistic and policy-oriented approach is advisable, since it would be too simplistic to ignore the effects of evolving relationships with other regions at a time when the Egyptian economy is going through a period of more rapid transition than before. Adopting too narrow an approach is not likely to provide a proper analysis or a balanced perspective to examine the issues determining future progress toward integration with the EU.

In this context, it is also to be noted that the *European Neighbourhood Policy*, in which Egypt has expressed interest, puts high priority on issues of political nature (democracy, human rights, etc.) and these are subject to more consultations between the two sides to see how the existing differences of opinion can be narrowed.

The paper will conclude with a few findings and recommendations for policy-makers to consider.

