

# **Egypt's New Path for Competitiveness and Innovation**

Research Dialogue  
on Emerging Markets

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# There were reasons for a revolt ...

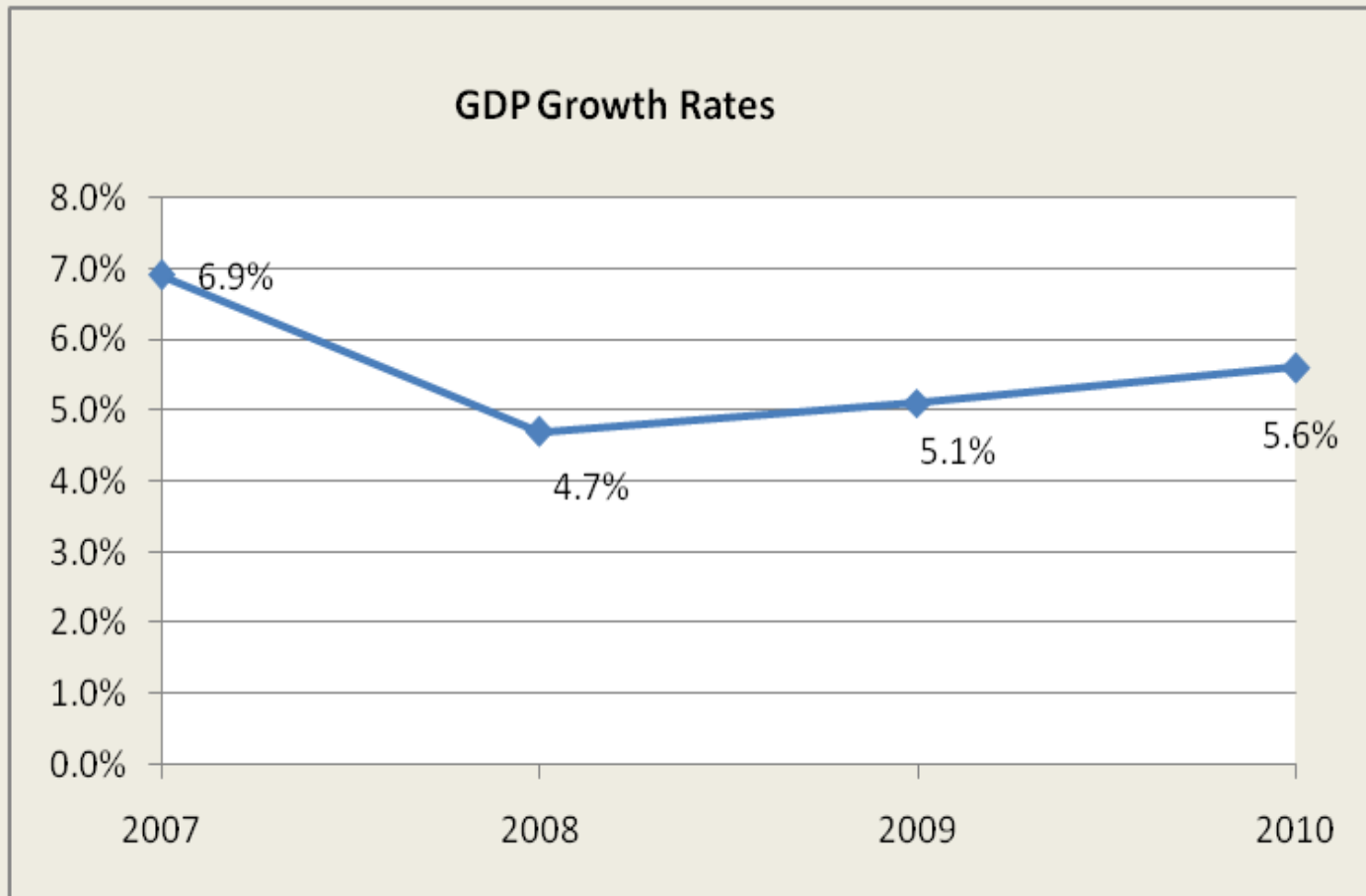
- The Egyptian revolution in Jan 25<sup>th</sup> 2011 presents a cross road in Egyptian history that hasn't been witnessed since ancient times.
- This peaceful and truly popular revolt came as a result of system failure on both political and economic levels.
- Hosni Mubarak who has been ruling the country for the past 30 years with political oppression, deteriorating standards of living and lack of economic equity.
- Persistent corruption with R&D spending less than 0.5% of the country's GDP generated an elusive path of artificially "high" growth rates.

# Competitiveness and Innovation Perspective

Egypt has ....

- History, strategic geo-economic location, political leadership in the Middle East, population of 82 million
- Diversity potentially competitive economic activities such as tourism, Suez Canal revenues, natural gas reserves, labor-intensive assembly industries, and a growing IT services sector.
- Plagued with chronic inflation, corruption, political favoritism, severe income inequality, unemployment, poverty.
- Innovation pillars have been largely and practically untapped, given an abundant skilled labor force, thus leaving the country with large potential that never materialized.

# Favorable situation?



# Alarming figures ....!

Indicator	Comment
GDP growth (2007-2010 average)	5.6%
Poverty (primary)	>20%
Poverty (secondary)	More than primary (informal, child, seasonal, rigidity)
Poverty (combined)	Reached 53% in late 2010! >40% continuously for a decade!
Unemployment	>10% for more than three years
Income distribution	Highest to Lowest (10%)=30% to 3% X10, ranked 90 <sup>th</sup> worldwide
Minimum wage	One-fifth UNDP standard of \$2/day Official min. wage below min. level of consumption subsistence
Inflation	16% per year (last three years) Reached a striking 24% in 2008
Public-private	24% public -76% private
Public debt	>90% of GDP

# Plus...

- Elections fraud (95% vote of confidence for the ruling party in 2010 parliamentary “elections”)
- Monopoly power of business tycoons close to the family of the President
- Ultra-liberal Neoclassical policies leading to unbalanced growth (dis-distribution of resources)
- Mubarak grooming his very unpopular younger son to be the next President

# **SYSTEM FAILURE!**

**Revolution of the Masses  
Against the Status Quo**

**Calling for:**  
**(1) Justice**  
**(2) Freedom**  
**(3) Social Equity**























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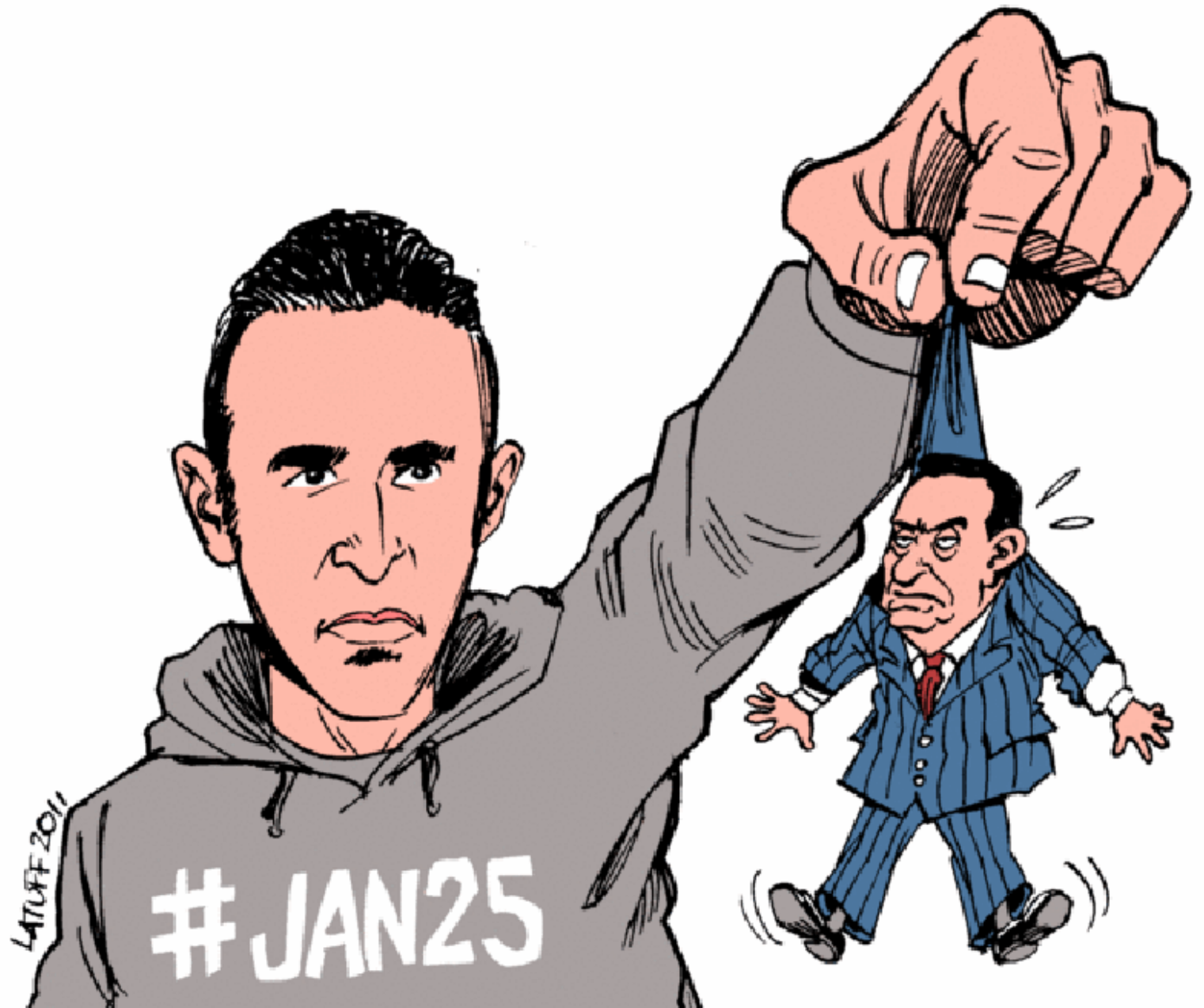








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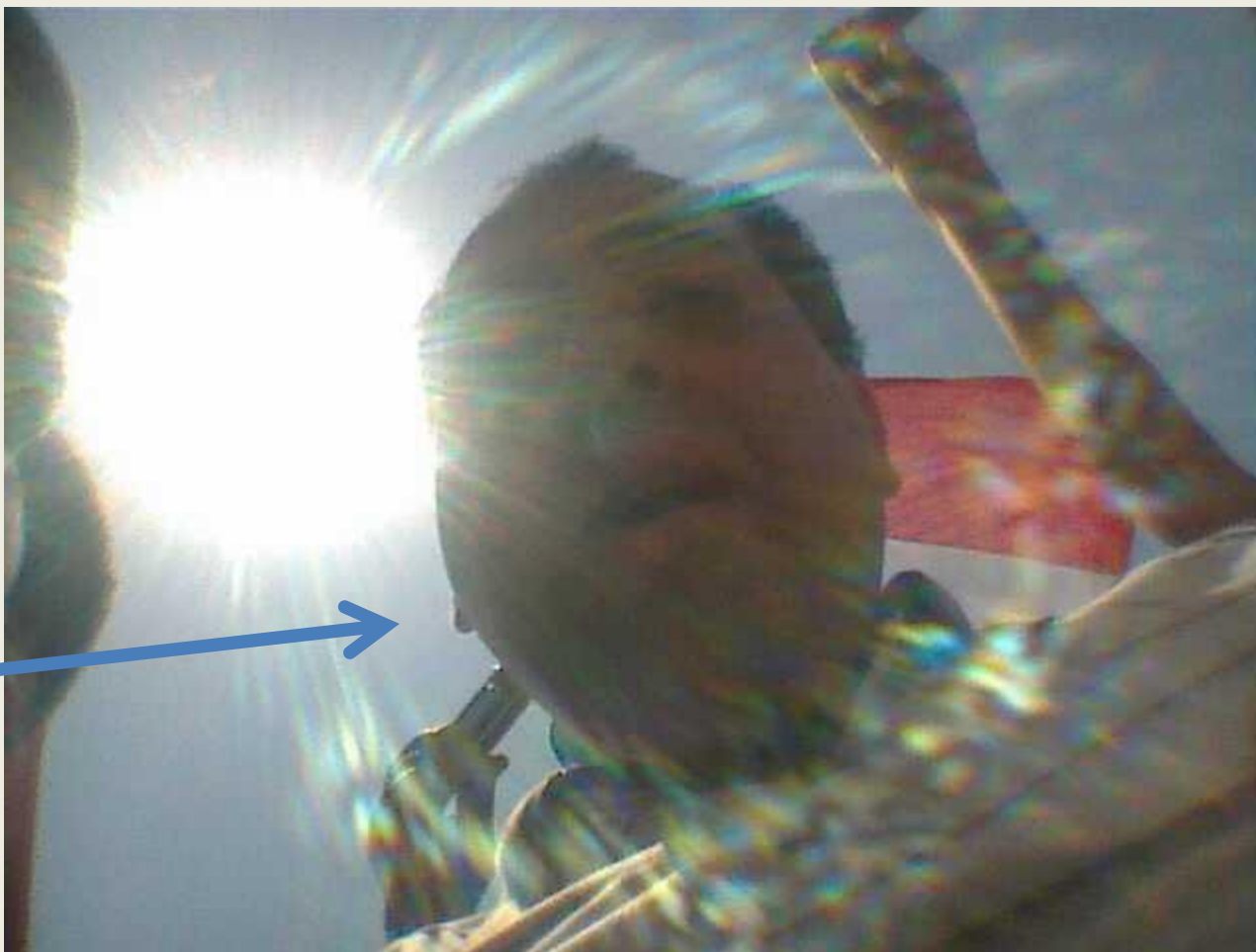
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# **After the Revolution...**

**Can Egypt be a competitive  
innovative economy?**



# Short Term Impacts of Revolution

## (Policy Shifts for Fiscal, Monetary, and Exchange Rate Policy)

Indicator/ Policy	Pre revolution	Short term post revolution
<b>Real GDP growth</b>	An average of 5.1% real GDP growth	GDP growth contracted to 2.6%
<b>Unemployment</b>	High unemployment reaching 66%	Increase in unemployment especially for daily workers
<b>Fiscal policy</b>	Stable fiscal policy with austerity	Expansionary fiscal policy
<b>Monetary policy</b>	Expansionary monetary policy	Fixing monetary policy via fixing the interest rate
<b>Exchange rate policy</b>	Managed float	Managed float (modest depreciation of domestic currency by 5%)

# Beyond Short Term Impact ....

## Relative Sector Productivity

Split of Sectors in Egyptian economy					
	% of GDP	Vs. previous year	Vs. 10 years ago	% of labor	relative efficiency (labor)
agriculture	13.2	-0.2	-3.3	32	0.41
industrial	29.8	-0.2	1.7	17	1.75
services	57.1	0.4	1.6	51	1.12

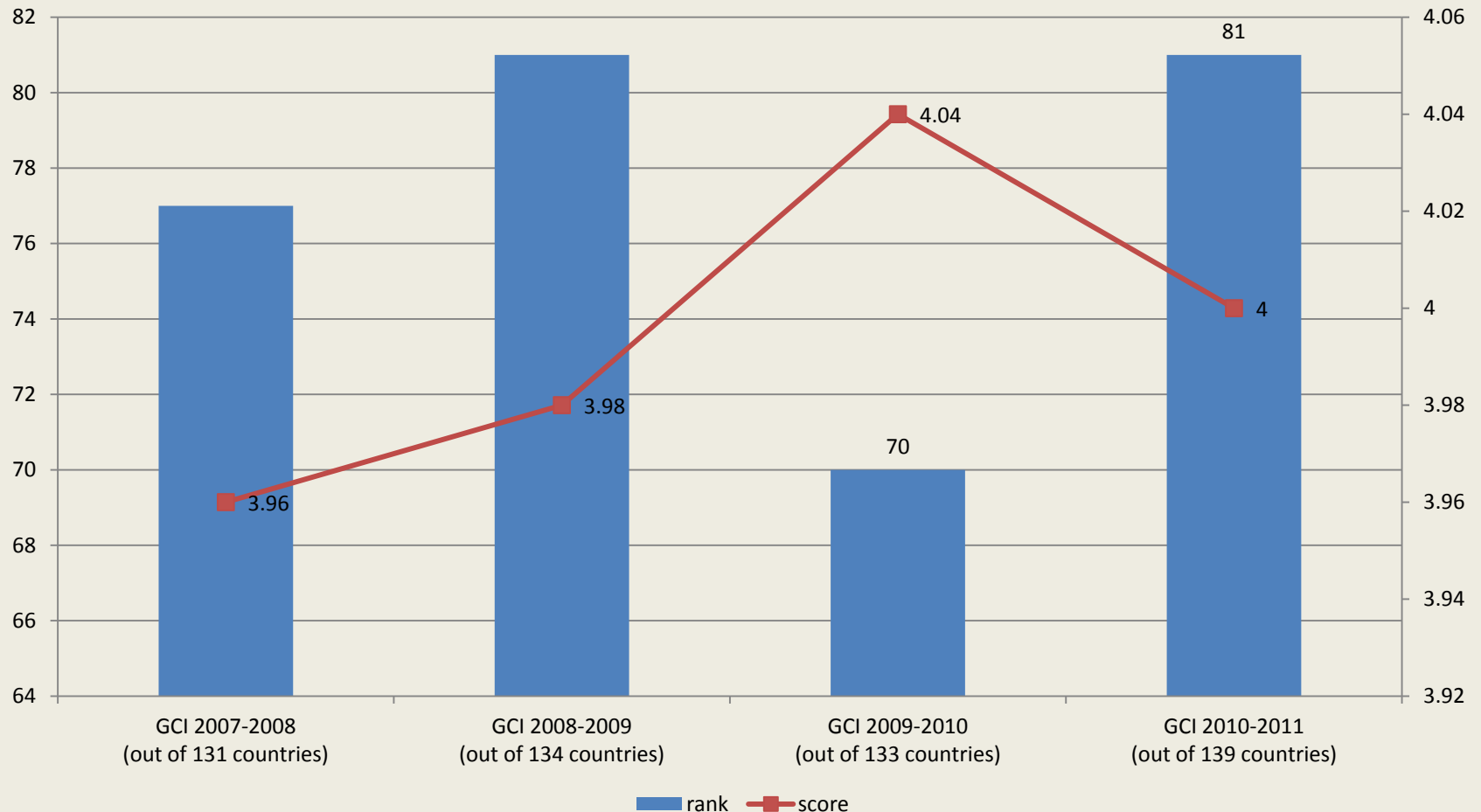
# Sector Competitiveness

- The agriculture sector behaves according to the **low cost-low quality output trap hypothesis**. Hence, regulations on *quality standards* are absolutely necessary, with strong sustainability conditions for effective *enforcement on the ground*.
- The industrial sector is seen as the main **victim of crony capitalism**, where corruption and political ties outweigh efficiency gains. Hence, there is a need to establish *industrial clusters* as systems of transparent self-governance coupled with *more risk taking entrepreneurship*. The “*blue ocean strategy*” (BOS) is seen as one of the recommended viable mechanisms for implementation.
- The services sector is considered to be under the “**foreign dependency problem**” *in investments more than entrepreneurship*. Hence comes the recommendation to ignite *domestic* investments in the services sector, *conditional* on such investments yielding an intensive degree of *positive externality* to other sectors or sub-sectors.

# Going more macro...

## Country Competitiveness

### Egypt's Global Competitiveness Index 2007-2011

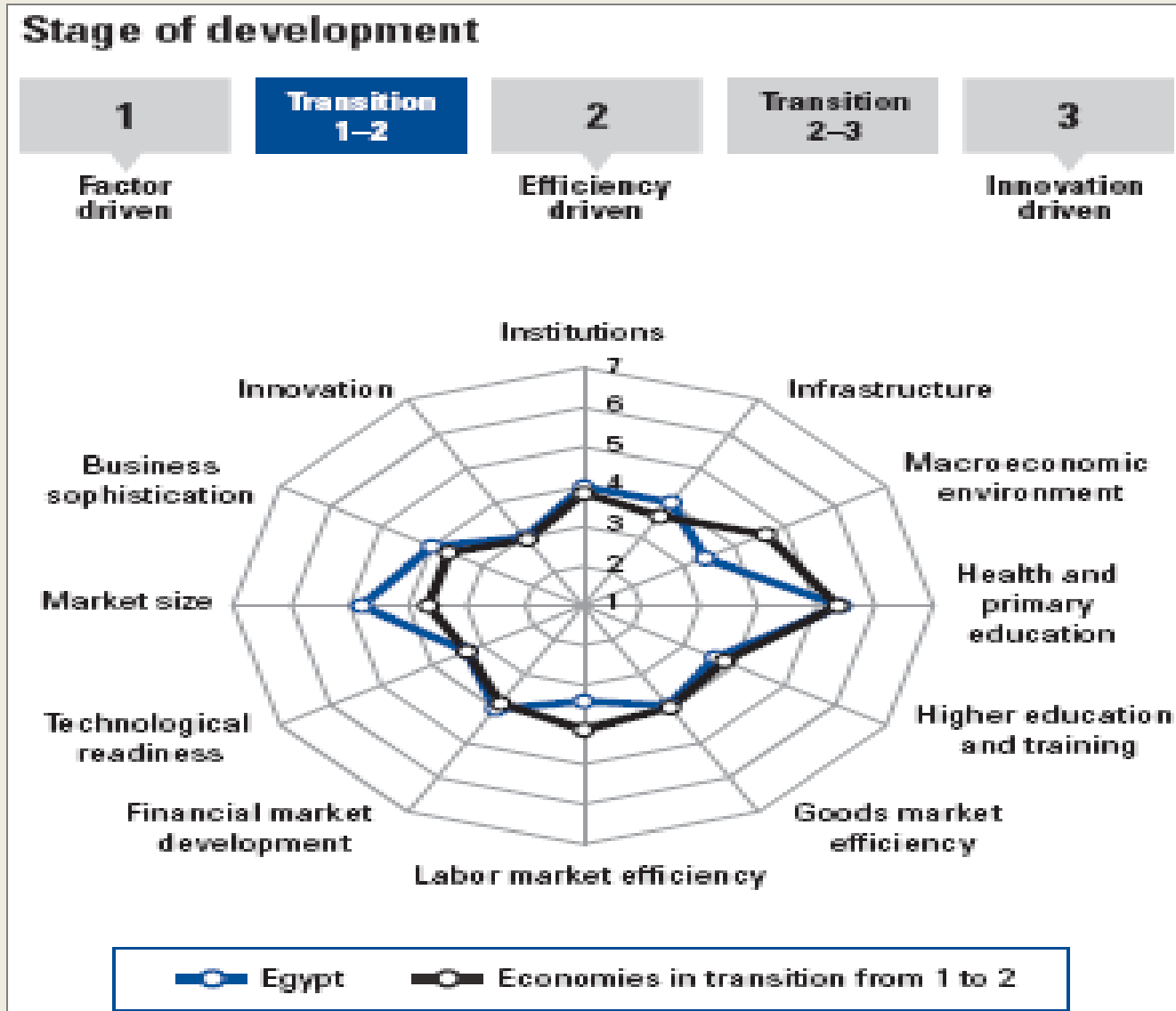


# Country Competitiveness

Rank of Egypt vs. Countries in MENA region in GCI

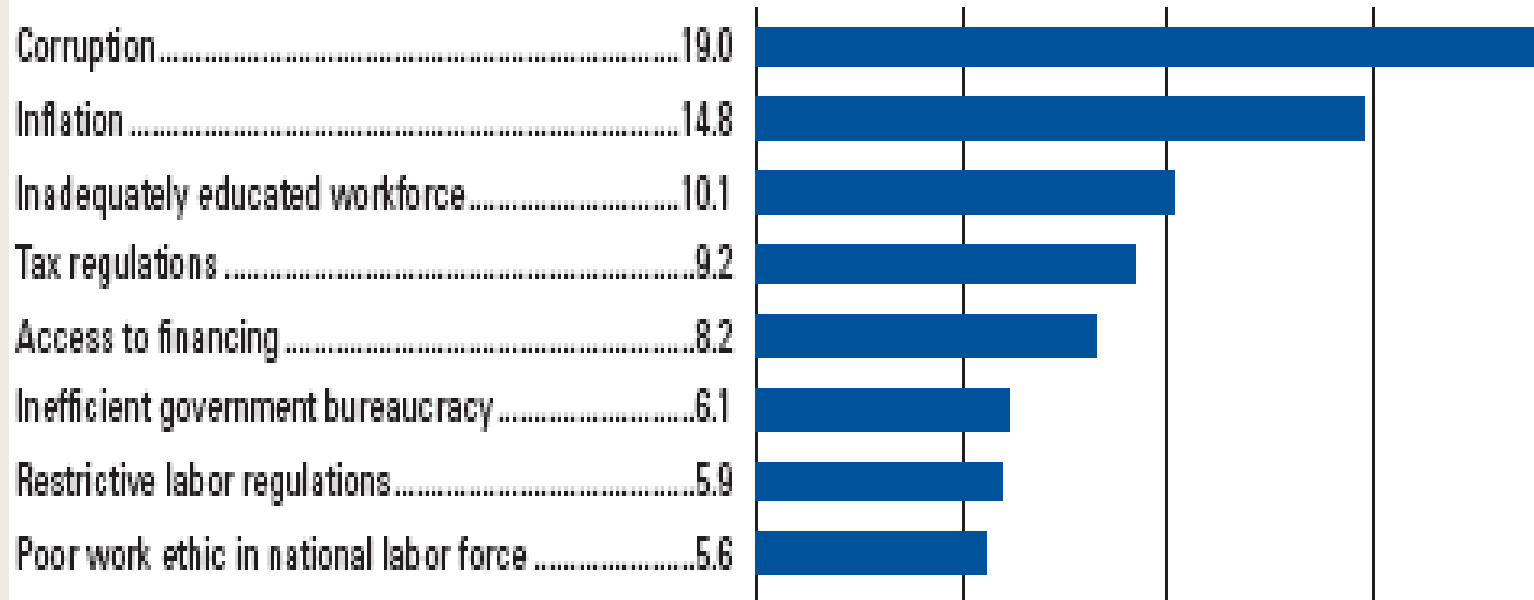


# Country Competitiveness



# Country Competitiveness

## The most problematic factors for doing business



Now we are in a position to analyze  
country competitiveness more broadly

...

## **Country Competitiveness SWOT Analysis**



## Strengths

### Country level:

- Central geographical location
- Abundant labor force
- Big market size
- Availability of financing through local equity market
- Good railroad infrastructure
- GDP growth with global recession (shielded economy)

### Additional sector specific strengths of the Services sector:

- Suez canal and rich touristic sites
- Modern banking sector with high degree of competition

### Industrial sector:

- Diverse industrial sector
- Abundant natural resources for the extraction industry (natural gas)

### Agriculture sector:

- Year round cropping
- High land and water quality

## Weaknesses

### Country level:

- Corruption and no transparency
- Poor education quality across all levels
- Low labor productivity
- Poverty (>53%), Unemployment (66%), Inflation (20%)
- Lack of systems and institutions (people-centric)
- Wage rates lower than sustenance level yet higher than productivity

### Services sector

- Foreign dependency problem
- Below potential

### Industrial sector

- Victim of “crony capitalism” with low quality output
- Insignificant local R&D and weak supply-chain linkages

### Agriculture sector:

- Land fragmentation
- Decreasing returns to scale (desert reclamation)
- non-targeted subsidies
- inefficient legal framework (pricing/subsidies)

Opportunities	Threats
<p><b><u>Country level:</u></b></p> <ul style="list-style-type: none"> <li>- New government post revolution with popular support</li> <li>- Post revolution entrepreneurship spirit</li> <li>- Economies of scale (homogenous) and economies of stretch (customized)</li> <li>- Prospects on new anticorruption law and expected transparency via democracy</li> <li>- International support to Egypt post the revolution to rebuild a democratic country</li> <li>- Plans to increase minimum wages creating more equity in the society</li> <li>- Potential flow of FDI post revolution creating more job opportunities</li> </ul> <p><b><u>Services sector:</u></b> Domestic investments with positive externalities</p> <p><b><u>Industrial sector:</u></b> Quality standards, local R&amp;D, supply chain linkages</p> <p><b><u>Agriculture sector:</u></b></p> <ul style="list-style-type: none"> <li>- Restricted due to land saturation</li> <li>- Desert reclamation (export potential)</li> <li>- Import reduction (wheat)</li> </ul>	<p><b><u>Country level:</u></b></p> <ul style="list-style-type: none"> <li>- Lack of security due to weak police force after revolution</li> <li>- Political instability</li> <li>- Non-sustainable budget deficit and/or public debt</li> <li>- Failure of central bank to stabilize currency</li> <li>- Persistence of non-Pareto growth</li> <li>- Least cost- least quality output trap</li> </ul> <p><b><u>Services sector:</u></b></p> <ul style="list-style-type: none"> <li>- Terrorism (tourism)</li> </ul> <p><b><u>Industrial sector:</u></b></p> <ul style="list-style-type: none"> <li>- Dependency on foreign technology</li> <li>- Competition from China and India (unable to compete)</li> </ul> <p><b><u>Agriculture sector:</u></b></p> <ul style="list-style-type: none"> <li>- Political risk on Nile-basin water supply</li> <li>- Lack of urban planning posing threat on arable lands</li> <li>- High yield-high price (uncompetitive)</li> </ul>

<b>STRENGTHS</b>	<b>WEAKNESSES</b>	<b>COMPETITIVE POSITION</b>
<b>OPPORTUNITIES</b>	<b>THREATS</b>	<b>COUNTRY OUTLOOK</b>
<b>COUNTRY POTENTIAL</b>	<b>RISK POSITION</b>	<b>Country Competitiveness Guidelines</b>

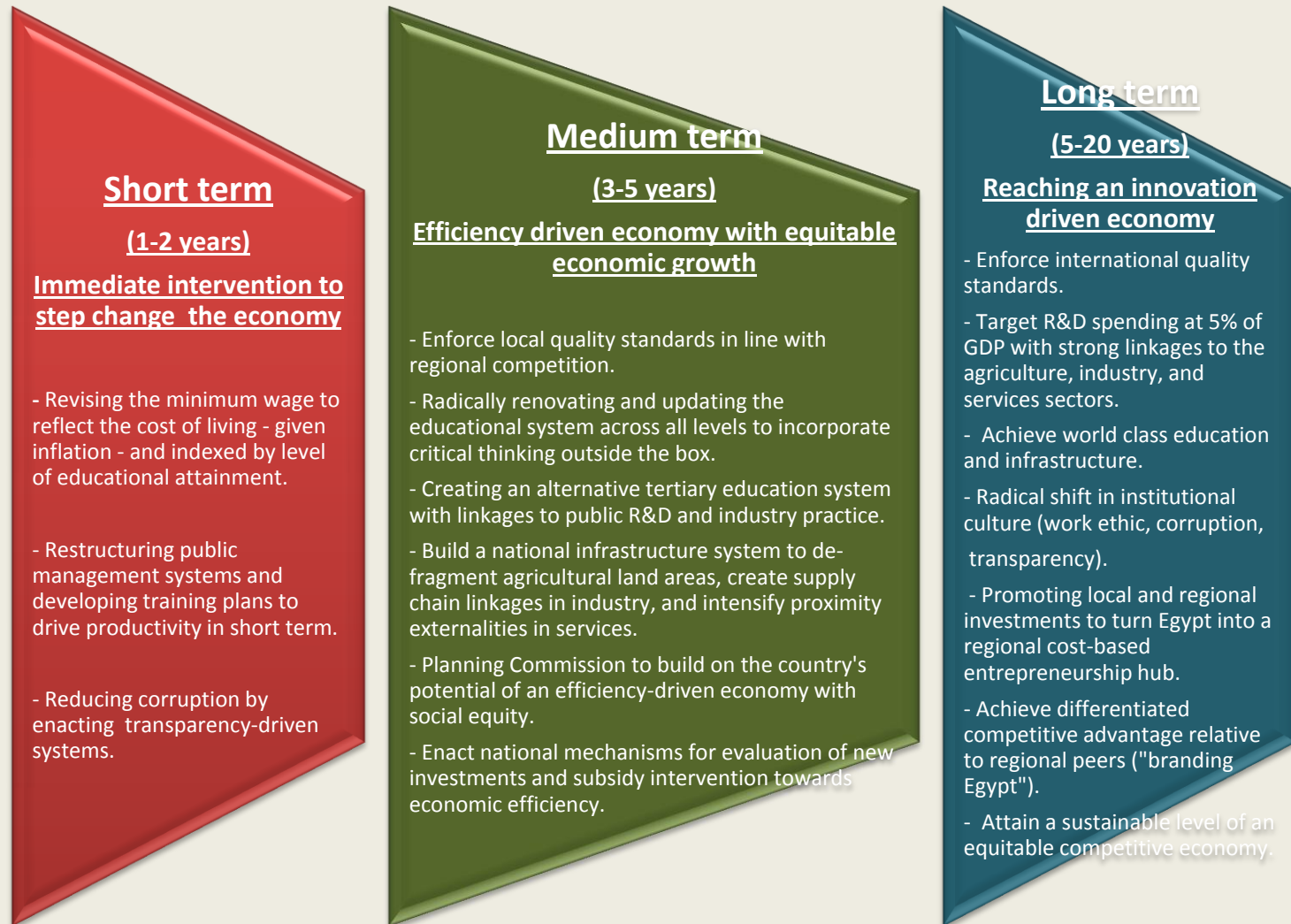
<b>S</b>	<b>W</b>
<b>O</b>	<b>T</b>
<b>Country Potential</b> <i>Egypt can become a fast-growing labor-intensive scale economy with efficiency systems in place to leverage its newly found democracy and achieve balanced growth with social equity.</i>	<b>Risk position</b> <i>Prolonged political instability, lack of security when coupled with low productivity can lead to economic depression.</i>

<b>Competitive position</b> <i>Despite its several strengths, notably market size, the Egyptian economy is uncompetitive ranking at 81 globally due to low productivity of labor, wide corruption, and inefficient country-wide education and R&amp;D systems.</i>
<b>Country Outlook</b> <i>Good potential to be realized towards sustainable economic development by leveraging scale and stretch opportunities post the revolution yet after addressing political instability on both domestic and regional (Middle East/ Nile-basin) fronts.</i>

## **Vision**

**“Transforming Egypt into a fast growing efficiency driven competitive market in the short to medium term and an innovation driven economy in the long term tapping into the country’s potential in a way that brings to life the heart of the Egyptian revolution’s demands of equity, more jobs and higher living standards”.**

# Strategy Timeline to Achieve an Innovation-Driven Economy



# Major Conclusions

- Dual monopoly power in politics and economics leads to radical response
- Ultra-Neoclassical doctrine is doomed to fail for transition economies
- There are short term costs to radical change
- Timeline of strategies towards a vision is needed
- Stages towards innovation-based economy
- Innovation Planning requires Bottoms-Up Analysis, but with Top-Down Policy