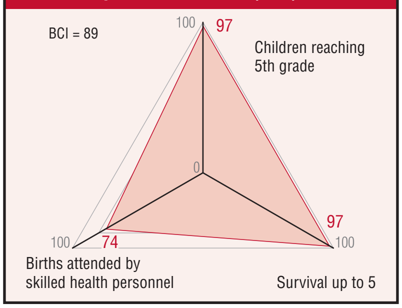
An unprotected economy

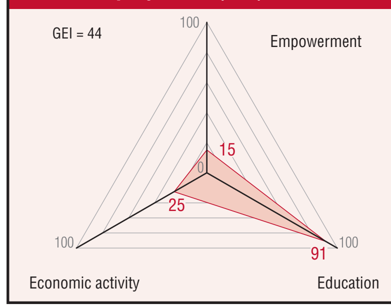
The food price crisis in 2008 showed that after decades of paying no attention to its agricultural sector, Egypt lacks food sovereignty. Today the Egyptian economy is beginning to feel the impact of the global crisis. The drop in remittances and the return of émigrés has put pressure on a labour market badly prepared to absorb more unemployed workers. The Government has adopted measures to promote investment and economic recovery. While these are long overdue, it remains to be seen whether they can deliver the needed stimulus before rising unemployment and lack of food security lead to widespread social unrest.

The Egyptian Association for Community Participation Enhancement (EACPE)[1]
Afaf Marei

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



Although the Egyptian economy has experienced rapid growth over the last five years, the fact that the country imports two-thirds of its food has put it in a vulnerable position. As a consequence of the soaring increase in international food prices in 2008, a great part of the population had difficulties in feeding their families, and social tensions grew. On the other hand, the global food crisis revealed the importance of food self-sufficiency for developing countries such as Egypt, most of which have neglected investment in agriculture during the last 25 years due to low prices for food commodities in international markets.

In addition, with the constant deterioration of land fertility, climate change and water scarcity, crop yields in Egypt are declining each year while, at the same time, imports of agricultural products have increased to meet the demands of a growing population. All of these contributed to the overall loss of food sovereignty.

A slowdown in growth

Since 2004, following the election of Prime Minister Ahmed Nazif, the Government has promoted a highly open market economy. An inflow of foreign investment and record income from tourism, shipping and other activities related to the Suez Canal allowed the country to experience the most rapid economic growth in decades. Nevertheless, since the last quarter of the fiscal year 2007-08, this growth has started to slow down. According to the Minister of Economic Development, Osman Mohamed Osman, growth slowed by 5.8 per cent in the first quarter of the fiscal year 2008-09. At the same time, the rise in food prices, which led to an index of inflation of over 20 per cent, has had a negative impact on consumption.

The Government anticipates a continued drop in exports for 2009, together with declining foreign investment and reduced income from the Suez Canal and tourism—all due to the global slowdown. The same will happen with the indexes of growth. As 70 per cent of the country's currency revenue comes from the services sector and the crisis has hit the global demand for tourism particularly hard, the Egyptian economy during the present fiscal year is expected to have its slowest annual growth in five years.

At a luncheon of the American Chamber of Commerce held in Cairo in October 2008, Minister of Trade and Industry Rachid Mohamed Rachid stated that additional measures were needed if the country wanted to maintain the same level of growth. "If we keep on doing what we have been doing to reach a 7 per cent growth," he stated, "it is very clear we will not be achieving that 7 per cent, neither in 2008 nor in 2009". He noted that assuring the viability of the financial sector was as important as supporting the most vulnerable sectors in order to keep on growing. He also pointed out that the fact that the banking sector was healthy and had enough liquidity was good news, and that this liquidity should be assigned to the export sector, investment and consumption.[2]

Impacts on agriculture

The lack of investment in agriculture will result in an inevitable increase in the unemployment rate and, as consequence, an increase of the number of people living in poverty along with the level of out-migration – especially in Upper Egypt. Comprehensive development of the agricultural sector, enhanced support for farmers and the adoption of alternative agricultural policies are needed to provide food safety and to dignify the life of Egyptians by means of a system that addresses their social, economic and political rights.

Unemployment

The Executive Director of the Centre for Industrial Modernization, Adham Nadim, announced the loss of 45 per cent of existing jobs, due to the fact that they were not professional jobs. Thirty-five per cent of the 2 million people in the industrial workforce have no labour protection. According to Nadim, immediate measures are needed to correct the situation.

In March 2009, the Minister of Economic Development declared that the social development plan for 2009-10 will be difficult to implement due to the global crisis and its impact on the Egyptian economy. He estimated that growth slowdown would lead to an increase in unemployment, with the loss of about 150,000 jobs.

A survey carried out by the Centre for Trade Union and Workers Services (CTUWS) in April 2009 showed that 6,100 workers had been laid off in several sectors, including 3,100 in the textile sector and 270 in tourism, both of which employ predominantly women. A tourism company in Hurghada dismissed 200 of its 890 personnel. In other tourist cities, 25 per cent of workers' benefits have been cut off.

In addition, some 1,400 workers have been laid off in construction, 700 in the food sector and 550 in the mining sector. When the Assiut Cement company, which belongs to French Siemens, decided to stop production to carry out 'maintenance' work, only 680 of a total of 4,400 employees had work contracts, while the rest worked on a daily or temporary basis. In addition, Orascom Construction dismissed 400 temporary employees in March 2009, and the building company CEAC

1 This report draws on reports from the Land Center for Human Rights (LCHR) and Center for Trade Unions & Workers Services (CTUWS).

2 Rachid, R.M. "The Financial Crisis: Repercussions on Egypt", 2008. Available from: <www.amcham.org.eg/operation/events/events08/FinancialCrisis/FinancialCrisis.asp>.

dismissed 150 in January.[3] The banking sector has also announced staff retrenchments in the coming months.

Investment and savings

According to the Economic Development minister, reduced growth along with increased public investment –in human development, infrastructure, education and health programmes, among others – will produce a deficit between investment and domestic savings that could reach EGP 85 billion (just over USD 13 billion). As for remittances, EGP 40 billion (some USD 7.2 billion) are expected in 2009-10, some USD 180 million less than the previous year. The same will happen with the share of private investment in total investment – it is expected that this will reach 57%, compared to 67% in the previous period.[4]

The loss of jobs among Egyptians living abroad is estimated to result in the return of approximately 250,000 out of a total of 6 million, which will further stress the labour market. On the one hand, the Government is in no condition to absorb the returning workers; on the other, private companies increasingly demand better qualifications and expertise when hiring new employees. This situation can only serve to increase unemployment dramatically.

The Government's response

In response to the crisis, the Government has implemented a series of measures to strengthen sectors of the economy that are likely to stimulate renewed growth.[5] These measures include:

- Increased expenditure on public investment, including the implementation of urgent labour-intensive projects to boost consumption and revitalize the economic cycle.
- Reduced tariffs on intermediate goods and capital to help companies compete abroad and to encourage investment.
- Lifting of taxes on imports of capital goods for one year, in order to promote investment.
- Investment of some EGP 15 billion in projects with public and private participation.
- Plans to attract foreign investment, particularly from the Arab region, amounting to USD 10 billion annually.
- New investment opportunities in feasible projects such as oil, irrigation, civil aviation, free trade zones, tourism, urban development, housing, agriculture, trade and information technologies, among others.
- The establishment of investment promotion bodies at local government level.
- Efforts to solve problems and simplify investment procedures, especially in labour-intensive sectors, such as agriculture, industry and services.
- Efforts to achieve price stability of energy for industries.
- Increased support to the productive and exporting sectors.
- Provision of land needed for infrastructure projects and productive activities.
- Improved coordination with the Central Bank in order to provide credit to small and medium enterprises and to develop big surpluses of liquidity to finance productive projects.

In addition, a number of long-overdue banking reforms have also been announced. At this point, however, it remains to be seen what sort of impact these measures will have in terms of renewed growth. In the meantime, it is increasingly urgent to provide measures to mitigate the impact of the economic crisis on the population, particularly those who have lost their jobs and can no longer pay for basic food items. Without such measures, social unrest is likely to escalate dramatically, and it is only a matter of time before people take to the streets. ■

3 CTUWS. "Impacts of the Global Financial Crisis on Egyptian Workers". 2009. Available from: <www.ituc-csi.org/IMG/pdf/Impacts_of_the_Global_Financial_Crisis_Report_3.pdf>.

4 CTUWS. *op. cit.*

5 Alasrag, Hussein. Impact of the global financial crisis on the Egyptian economy.