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Egypt at a Crossroads: MNEs and Economic Development in a Global Environment

with Stephen Young

Introduction

A study of Egypt is appropriately included in this volume because it is genuinely at a crossroads, facing the same dilemmas as many of the transition economies around the world. Egypt is positioned at a strategic crossroads within the North African, Middle East and West Asian regions and has substantial opportunities to influence and to exploit the regional economic potential of the area. At the same time, the country is at a critical crossroads in its own economic strategy: thus it is seeking to switch from inward-oriented economic development to an outward-looking, export-oriented policy, in which multinational enterprises (MNEs) will inevitably have a focal role. But this is against the backdrop of fears of social and political unrest stemming from job losses associated with market reforms and privatization; and a lack of understanding of the potential benefits of foreign direct investment (FDI) and, indeed, fears of MNE domination. The aim of this chapter is to highlight the roles that FDI and MNEs currently play in the Egyptian economy, and to discuss some ideas for policy reform that would inter alia create greater integration between Egypt, MNEs and the global and regional economies. (This chapter draws substantially on UNCTAD (1998)).

In 1914, Egypt was a totally open economy, with trade, finance and industry overwhelmingly concentrated in foreign – mainly French, British and Belgian – hands. In 1956, however, the open door closed, and in
the following years all joint stock companies were nationalized and state control was extended throughout the economy. With the ending of the Nasser regime in 1970, a more liberal system of trade, investment and pricing was reintroduced, and many restrictive legislative rules were abandoned. State ownership is still overwhelming, nevertheless, and the legacy of state intervention in terms of institutional rigidity, centralization and public-sector domination has remained.

Following the adoption of Sadat’s open-door policies, Egypt achieved rapid economic growth in the period up to 1985, aided by significant increases in foreign assistance, workers’ remittances, and FDI. This period of growth ended in 1986, partly as a consequence of the decline in oil prices, and partly because of the maintenance of an inward-oriented growth strategy. Severe macroeconomic imbalances developed subsequently, causing unemployment and increased poverty. After this period of stagnation, the immediate goal set by the new government in 1991 was to achieve rapid private-sector-led outward-oriented economic growth. It introduced and implemented successfully the Economic Reform and Structural Adjustment Programme (ERSAP I) with the support of the International Monetary Fund IMF and the World Bank. A further programme of structural reforms (ERSAP II) designed to reduce the public-sector concentration of the Egyptian economy and to foster growth was introduced in 1996.

Policy objectives identified by these reform programmes were as follows:

- **Maintain a stable macroeconomic environment and increase the rate of economic growth.** Improved macroeconomic stability has been achieved by ensuring fiscal and monetary discipline and by strengthening monetary policy tools. However, GDP per capita remains low because of population growth, and the government of Egypt has set a target of over 7 per cent GDP growth by the year 2000. This objective is believed to be attainable, despite the risks associated with it, but structural reforms are essential.

- **Open the economy.** The government has recognized the need to remove obstacles to trade, promote exports, and develop new export markets to invigorate the outward-oriented growth strategy. However, the process of trade liberalization needs to be deepened and accelerated. Necessary reforms include actions to improve trade transportation, to simplify customs procedures, and to improve national quality control systems and standards. Actions to forge buyer–seller links and to foster an export mentality are also important.