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**Law-Making for Trade Liberalization & Investment
Promotion in Egypt**

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1. EGYPT'S DEVELOPMENT STRATEGY IN THE 1990s

1.1 An Economic Overview

Egypt has started to implement its comprehensive Economic Reform and Structural Adjustment Program (ERSAP) in 1991. The reform program was implemented jointly with the IMF and the World Bank. It included mainly two dimensions: stabilization and structural adjustment. The reform program covered almost all parts of economic policy, ranging from the financial system to human development. The stabilization dimension, considered a success by international institutions' standards, achieved the targeted macroeconomic stability (see for example, IMF, 1998). The package of policies used was able to bring a significant reduction in inflation (see table 1). Starting 1997, the Egyptian economy faced two major exogenous shocks which affected negatively its performance. Such negative performance resulted in a recession that started in 2001 and was exacerbated by the attack of 9th of September in the USA. Inflation remained largely under control till the devaluation decision undertaken in 2000 after which inflation started to rise, though remaining at a single digit level (Table 1). The whole sale price index (WPI) reached more than 18% in 2003.

Between fiscal years 1990/91 and 1995/96, the budget deficit declined from 15.4% to 1.3% of GDP, however it started to rise sharply afterwards reaching more than 6% in 2003/2004. The exchange rate system was liberalized and unified in 1991, however suffered overvaluation since 1997. From 2000 onwards, the Egyptian pound was devalued several times and in 2003 a new floating system was adopted. In the period 2000 to 2004 the Egyptian pound lost more than 40% of its value vis a vis the US dollar. The country's external position improved greatly in the 1990s where, for example, the average level of reserves, including gold, as a percentage of total external debt, rose from about 5% in 1980-89 to about 30% in 1990-94 (Licari, 1997) and further to 7.5% in 2003/2004. This reform has resulted in rising GNI per capital levels over the period 1990 – 2004. Yet this success in absolute terms is relatively poor compared to the MENA average (Table 2).

The performance of the Egyptian economy has suffered from several drawbacks as there were several delays in the continuation of the structural reforms (e.g. in privatization and the establishment of a primary market for government securities). Moreover, the fiscal adjustments undertaken have been insufficient, which resulted in a high gross general government burden reaching 92% of GDP in 2001/2002 (net debt amount to 76% of GDP) (Standards and Poors Report, 2002). The structural reform suffered from a number of delays and incomplete adjustments in part due to fears of a potential negative impact on social

stability. Two examples stand out: The privatization program did not follow the timetable planned for its implementation. As of March 2002, 188 entities had been privatized since 1995 with a total of 13 privatization transactions carried out in the year 2001 compared to an average of 25-30 transactions carried out annually in the previous five years (US Embassy Report, 2002). The second example is the exchange rate which suffered from inflexibility (overvaluation), creating adverse effects on the trade balance deficit and the competitiveness of Egyptian products. The official reserves ratio declined significantly from covering 16.4 months of imports in 1994/1995 to 10.4 months in 200/2001 (Ministry of Trade, 2002) as a result of the overvaluation problem and unsuccessful trials of the government to keep the exchange rate at its fixed level. The change of the Governor of the Central Bank in 2003 helped to stabilize the exchange rate and overcome the overshooting problem. As a result, the black market vanished completely in January 2004 and the official reserves ratio rose to 12 months of imports coverage in 2002/2003.

This was particularly critical because of high unemployment rates. It is estimated that the Egyptian labor force grows by 3% and around half a million enter the job market annually (see Table 3 for conservative official estimates of unemployment).

Despite the significant shift of the government's policy and ideology towards export promotion, the transition from the old system characterized by import substitution and inward orientation is still incomplete. The process of a successful transition is impeded by the nature of the social contract between the government and the society that still lags behind the reforms undertaken. The Egyptian government still bears a heavy burden maintaining a huge bureaucracy as a safety net against unemployment. Thus, while the Egyptian government managed to reduce public expenditure by reducing price and food subsidies (Table 4.) and increasing social expenditure on health and education, Egypt's human development indicators are still poor, large portions of the population remain without basic services, the gender gap remains wide and social discrepancies are large. In fact, the Human Development Report of 2004 showed that Egypt's position deteriorated significantly.

Another factor that represents a major loophole in the reforms undertaken is the incompatibility of the institutional infrastructure with the reforms implemented. The business community and foreign investors have cited red tape measures and bureaucracy as major impediments for doing business in Egypt. The government has reacted by enacting new laws and regulations. Nevertheless, the symptoms of inefficiency in the public administration enacting such laws and regulations were not resolved. Part of the problem can be attributed to the social contract mentioned above where the social commitments of the government

prevent it from undertaking the necessary institutional reforms which could entail severe social costs (such as reduction in the size of civil servants)¹.

Another reason maybe the pervasive prevalence of a public sector mentality that inflicts economies where the state owned enterprises comprise a significant portion. The figures in Egypt show that the size of the state owned enterprises (SOEs) as a percentage of GDP remains large by international and developing countries' standards. For example, if former socialist countries are excluded, SOEs as percentage of GDP in Egypt is triple the percentage of the country with the highest share of SOEs in the other comparator countries shown in table 5.

Having said that, there might still be other institutional reasons which make reform policies less effective. As this project implies, the process of responding to market needs and reform failures starts with law-making and regulation design. This process may require more investigation. As already mentioned above, there have been several attempts to change laws and regulations to increase incentives and administrative transparency, but to no avail. In this project, we ask why has this corrective feedback mechanism been ineffective, especially in the areas of trade and investment.

Fiscal Policy:

The government is undertaking several steps to control expenditure and raise revenue. The Egyptian government is trying to adopt a flexible fiscal policy, however it is curtailed by the a heavy debt burden². The general government debt (including central government and public economic authorities) accounts for about 92.4% of GDP up from 86.4% in 2000/2001. The budget deficit that has been brought down to less than 3% rose to 6% of GDP in the fiscal year 2003/2004 which is not alarming but signals a deteriorating situation and high inflationary pressures. The expansionary fiscal policy adopted by policy makers (through tariff and tax cuts), was undertaken to enhance aggregate demand after the slow down that the Egyptian economy has been facing mainly via increasing expenditures. This has been in a way contradictory with a stable monetary policy where only discount rates have changed slightly to defend a rigid (despite devalued) exchange rate system.

¹ Preliminary announcements of the fiscal years 2003/2004 budget indicate that 41% of the budget is earmarked for social expenditures with the main bulk going to pay the public sector wage bill (US Embassy Report, 2003).

² (currently the public external debt is about 128% of current account receipts, however it enjoys favorable terms as more than half of it is Paris Club debt and the external debt service is just 10.9% of the current account receipts)

Monetary and Exchange Rate Policy:

Monetary policy and exchange rate policy have seen a critical change toward more flexibility. However, the loss of credibility in the current exchange rate regime continues to deplete the safe international reserves that cover more than 7 months worth of imports (\$ 12 billion at June 2002). Intended reforms in the area of monetary policy aim at providing the Central Bank with more autonomy, however it is not expected to be completely shielded from the influence of the government. The money supply (M2) continues to grow by about 14%. In 2003, the Central Bank announced that the monetary policy objective is inflation targeting and not maintaining a fixed exchange rate. The foreign exchange market regained stability by 2005 and the negative effects of speculations disappeared to the extent that the Egyptian pound started to regain value vis a vis the US dollar in 2005.

A View for the future:

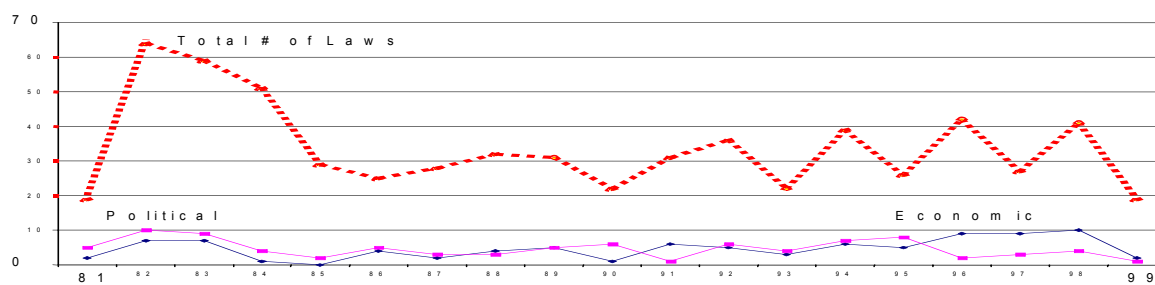
Despite government policies aimed at stimulating demand, GDP is estimated to grow at only 4% by 2004/2005. Domestic demand is increasing whereas investment growth and growth in exports have been insignificant. The decline in exports' growth or its stagnation is partially a result of the 9/11 which led to a steep fall in tourism receipts (a major source of income accounting for 20% of current account receipts but just 0.85% of formal employment). Faced with such conditions, the government is likely to continue its expansionary fiscal policy and shift toward a more flexible accommodating monetary policy, however still targeting a fixed exchange rate.

The entry into an FTA agreement with the EU is likely to carry significant challenges for Egyptian industry and at the same time act as an anchor for the reforms undertaken.

1.2. An Institutional Overview

The 1990s saw a dramatic change in announced goals and a rapid acceleration of economic institutional reform. The 1989 investment law and the 1991 public enterprise law foreshadowed a phase of extensive economic legislation. A survey of all legislation since 1991, leaving out government budget and petroleum sector legislations, shows that there was considerable legislative activity which affected (directly) the economy of Egypt. The peak of legislation overhauling economic relations in the Egyptian market happened in the second half of the 1990s (Figure 1). Since the mid 1990s, expansive legislation liberalized the economic infrastructure in several important sectors: investment, export, banking, insurance, ports, and the stock market (Annex 1).

Figure 1: Economic & Political Laws to Total Number of Laws in 1981-1999



Source: El-Mikawy & Handoussa eds. *Institutional Reform and Economic Development in Egypt*. 2002. Cairo: AUC Press. The total number of laws does not include budget legislation or oil agreements.

This trend has been sustained. Since 2000, the executive and the legislative branches of government have worked on a number of laws and regulations: labor law, competition law, information provision law, export promotion law, the special economic zones law, and the exchange rate regulatory regime. The most recent government shuffle has brought in a cabinet keen on pushing ahead with tax, banking and other critical economic reforms.

2. TRADE AND INVESTMENT IN EGYPT

The developmental strategy that the Egyptian government is currently adopting is outward-oriented. Enhancing investment and trade are major pillars of this strategy. This is evident in the number of laws and regulations that have been adopted since the second half of the 1990s and the regional and international agreements which the Egyptian government has signed (Table 6).

2.1. General Trade Performance

Trade reforms started in August 1986 with a major tariff reform and continued with the announcement of the Economic Reform and Structural Adjustment Program (ERSAP) in 1991. The latter included a trade liberalization component that aimed at changing Egypt's inward-oriented, import-substitution strategy of the past decades. In early 1993, the tariff range was narrowed to a maximum rate of 80% from a range of 5-100% in 1991 with a short list of exceptions. In 1998, the maximum rates were reduced to a maximum of 40% with some exceptions (WTO, 1999). In 2003, another wave of tariff reform and reduction was undertaken which reduced the tariffs as well as narrowed down the tariff bands from 26 to 13 tariff band.

Egypt has successfully decreased its average MFN tariff rate³. There has been a decline in tariff escalation as duty reductions have introduced a greater degree of tariff uniformity across sectors⁴. Egypt has also been positively progressing on the removal of its NTBs. Egypt has removed its import bans on all but clothing and some poultry products and does not apply import quotas. It has neither minimum price for imports nor seasonal quotas. Moreover, items previously allowed only conditional entry into Egypt or on the banned list have gradually been removed from the list.

Despite such positive developments, the reform was not comprehensive because the reduction of tariff rates was not applied to several commodities, including passenger cars⁵, tobacco products and alcoholic beverage which are still subjected to prohibitive tariffs. Moreover, overall tariff dispersion has increased. Finally, Egypt's tariff rate is still characterized by significant escalation— despite its reduction— with tariffs on raw materials considerably lower than those on semi and fully processed goods⁶. In addition, Egypt has increasingly moved de-restricted imports into a list of articles requiring quality control inspection. Moreover, Egyptian standards show a low incidence of conformity with international standards; on average less than 20% of new standards issued annually since 1992 conform to international standards.

The tariff reductions, whether nominal or effective rates, were not translated into increased integration of the Egyptian economy in the world trade as some of the conventional measures reveal. For example, trade openness has severely declined from 33% in 1991/1992 to 24% in 2000/2001 (calculated from the Quarterly Economic Digest, October – December 2002, Ministry of Foreign Trade). Moreover, Egypt's share in world exports declined from around 0.2% in the mid-1980s to 0.08% in 1993 and to 0.07% in 1996 to less than 0.02% in 2002.

The development of exports and imports at constant prices and the share of manufactured exports as percentage of total merchandise exports experienced flat performance (Figures 2 and 3).

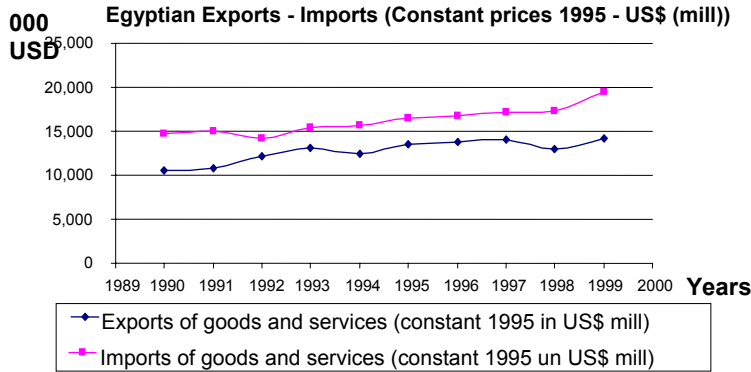
³ The simple average MFN tariff has fallen to 26.8% (30.2% with a surcharge and customs service fee) in 1998, from 42.2% in 1991 and further to 18% in 2002.

⁴ In 1998, over 98% of Egyptian tariff lines were subject to bound rates with an average of 45% (expected to decline to 37% by 2005). The 98% compares positively with an average of 73% for developing countries.

⁵ Cars were only affected by a 2004 reduction, however it only applied to cars with less than 1600 c.c.

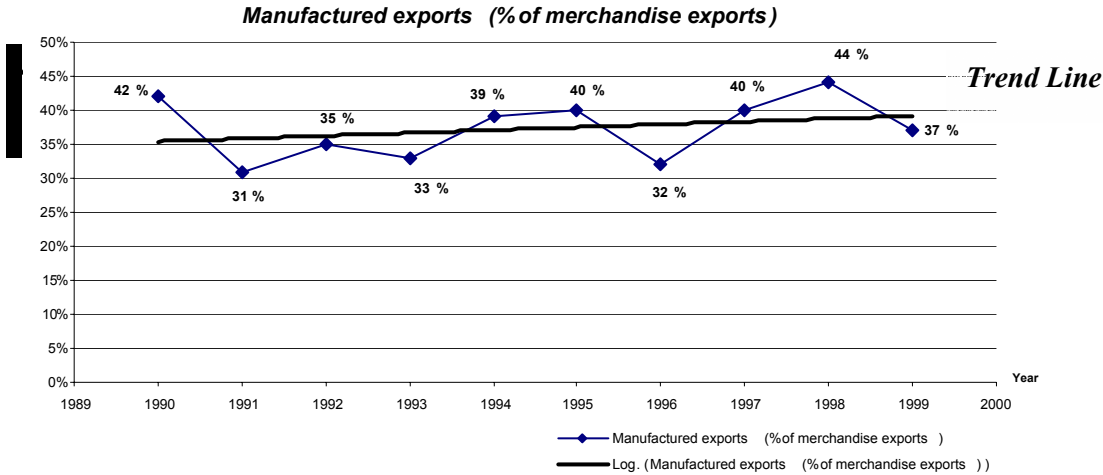
⁶ In 1998 the average *ad valorem* duty applied on primary products was 14.5% compared within 20.2% on semi-processed goods and 32.9% on fully processed products, which accounted for 57% of all imported items (WTO 1999).

Figure 2: Egyptian Exports & Imports (constant prices 1995 in mill. US \$)



Source: WDI CDROM

Figure 3: Manufactured Exports



Source: WDI CDROM

2.2. General Investment Performance

The Egyptian government has been always concerned about the enhancement of investment (especially FDI). This has been evident in the number of laws and regulations issued for this purpose which started in 1974 with the Infitah Policy and continued since then.

However, general investment trends, especially FDI, did not live up to expectations. FDI inflows increased during the 1990s, however with a decreasing rate, not matching the strong growth performance of the Egyptian economy and not able to satisfy increasing need for investment. In fact starting 2001, FDI inflows declined significantly. The North African region, in general, and Egypt, in specific, record a poor FDI attraction when compared to other developing and transitional economies. Table 7 traces the FDI inflows in Egypt in the period 1995-2002 and the rate of growth of such inflows.

Although one must be cautious when interpreting FDI data, what is evident is an unstable performance and a relatively weak ability by the Egyptian economy to attract FDI and domestic private investments despite major regulatory efforts by the government to promote investment, as shown in table 8, where the share of private investment in GDP remained significantly low.

3. OVERVIEW OF LEGAL & REGULATORY FRAMEWORK OF TRADE & INVESTMENT

Trade and investment are affected by a legal and regulatory framework which includes two components: a) those which affect the general environment of doing business in the Egyptian economy and b) those which specifically impact trade and investment transactions.

3.1 Legal & Regulatory Components of General Environment of Trade & Investment

Several factors affect the general environment of doing business in an economy. One is the geopolitical condition of the region. The other is the extent of political stability of the country. A third is the level of human development and the fourth is the country's service infrastructure. The Egyptian economy has a hard time in all respects. The region in general has seen in the 1990s high levels of violence and conflict which have strained the stock of political stability. Assuring stability had to come with a lot of political repression, which tarnished the country's political image and affected its international ratings regarding political openness. As to human development and service infrastructure, the economy in the 1990s and in the early years of the new millennium had not reaped the benefit of the investments devoted to these sectors over the years, though the services have seen improvements, especially in telecommunication.

Three more factors have affected the general environment of trade and investment in Egypt in the 1990s: the exchange rate regulations, the transparency of information, and the country's international and regional trade obligations.

3.1.1 Exchange Rate Regulations

The system of exchange rate in Egypt was changed dramatically in 1991 by announcing a major devaluation which was part of the Economic Reform and Structural Adjustment Program. The announced system was a managed floating system though in reality it had a

fixed exchange rate, which continued till the late 2000. At the end of 2000 and throughout 2001, a series of devaluations took place which ultimately devalued the Egyptian pound by more than 35% in nominal terms and introduced bands for fluctuations which started by 1% and ended by 3%. In January 2003, the Prime Minister announced that the Egyptian pound is completely floating. The new system was initiated to allow greater flexibility and to overcome the speculation attack, which deprived the economy of a large percentage of its foreign reserves. The latest steps undertaken to devalue the Egyptian pound have been a move in the right direction to eliminate pressure on the Egyptian pound that has existed for almost a decade. The former system had resulted in loss of competitiveness of the Egyptian pound, which was mainly pegged to the US dollar and accordingly had suffered from appreciation due to the appreciation of the US dollar against foreign currencies, especially against the Euro, the major importer of Egyptian commodities. The announcement of floatation led to overshooting and the exchange rate suffered from instability to the extent that black market premium rose significantly and the government issued a Prime Ministerial decree that exporters and tourism agencies and hotels should surrender their exports hard currency receipts to the banks if they are to ask for opening of letter of credits in the future. This intervention was not removed except in late 2004 when the market stabilized.

Under the former exchange system, exporters were losing and hence it is expected that they should benefit from the new exchange system, as the competitiveness of their products would increase. The former system implied benefits for importers and consumers who might suffer inflationary pressures under the new system. The government would likely gain from the new system, as it would partially narrow the chronic deficit in the trade balance by allowing automatic stabilizers to perform their job.

3.1.2 Information Provision Law

The law is still in its early stages of deliberation. The main aim is to enhance transparency, avoid ineffective control of data produced by some agencies, and the denial of access to public information. In the on-going debate about this law, “information” is taken to mean the sort of information held by different organizations and agencies and is of importance for monitoring the performance of their employees, their general provisions for work and their transactions with other agencies as well as all data that is of vital importance for the population who deal with such agencies. Trade and financial secrets, commercial negotiations, internal data related to employees, confidential reports would be excluded from dissemination by law. A number of organizations do not come under the provision of this law, such as ministers of strategic role.

In fact, it is a viscous circle. Market players who assert that data are not available from governmental agencies are themselves part of the problem, for they refuse to release their individual data to governmental agencies and to others.

This law is a positive sum game for all dealers in the market. It will enhance efficiency, transparency and capacity to monitor performance. However, it may suffer from increased costs of enforcement and implementation obstacles.

3.1.3 Trade Agreements

Regional and bilateral trade agreements are of two types: They are either with more powerful trading partners (e.g. EU) or with equally powerful trading partners (e.g. Arab countries and African countries). Both have different effects on Egypt's integration in the world economy. It has always been argued that the partnership agreement with the EU is akin to opening the Egyptian economy to the whole world given the high percentage of Egypt's trade with the EU. Moreover, it has been argued that the agreement with the EU acts as an anchor to domestic reforms since it prevents or at least makes it more difficult to backslide. This is likely to add credibility to the reforms and hence send positive signals to foreign investors. However, such arguments have been challenged. The back loaded nature of tariff reduction is likely to create resistance to the completion of the announced reform measures. Moreover, the hub and spoke effect could probable reduce the positive impact of the anchoring effect of the agreement.

Regarding the trade agreements with equally powerful trading partners such as the Arab countries, the agreements are full of loopholes: negative lists, absence of an effective dispute settlement mechanism and detailed rules of origin system (Box 1), and problems of coordination. Such agreements are not expected to increase the integration of Egypt in the world economy. On the contrary they are evident examples of retreats from credible trade liberalization due to their incomplete structures and loopholes. Table 9 identifies the number of exceptions (negative list) some of the Arab countries have sought not to liberalize in the GAFTA agreement. As the numbers show, the exceptions are relatively high.

The association agreement with the EU benefits exporters of competitive goods and is to the disadvantage of inefficient producers. In the case of GAFTA, winners are not necessarily efficient competitive exporters and losers are not necessarily inefficient producers due to the long negative list which allows each country to protect its chosen industries.

3.2 Components Affecting Specific Trade and Investment Transactions

There are specific laws and regulations which directly affect trade and investment transactions. Egypt has enacted and implemented in the 1990s a number of those laws and regulations, while others are still in the draft or discussion phase.

Box 1: Rules of origin are a case to the point. Egypt does not have specific rules of origin for its multilateral trade relations (non-preferential rules of origin). It has rather different sets and regulations for its regional trade agreements (preferential rules of origin). Such preferential rules represent a major impediment for Egypt in all its trading agreements. In its regional trade agreement with the EU, the rules of origin system allows for the accumulation of inputs between the EU Mediterranean trading partners as long as they have free trade areas among themselves and an identical system of rules of origin. This should have been a positive step, which could have allowed enhanced industrial and trade cooperation between Egypt and its Mediterranean trading partners. The problem lies in the fact that the Maghrib countries adopt a different rules of origin system from the one adopted by the Mashreq countries. The Aghadir declaration aimed at creating a free trade area among Egypt, Jordan, Morocco and Tunisia and establishing unified rules of origin system among them. The Aghadir negotiations have accelerated to some extent the establishment of the free trade area. However, the negotiations are hampered by arguments against the unification of rules of origin. Egypt is in line with the Pan European Rules of Origin System adopted by the EU since 1997 for its preferential agreements. The problem is mainly embedded in the low intra-regional trade between Egypt and Jordan, on one hand, and Morocco and Tunisia, on the other. This makes the costs of changing the system higher than the gains expected from the intra-regional trade among the countries of the Aghadir agreement.

In the GAFTA, the members have not yet agreed upon detailed rules of origin. In general they have agreed to adopt a value added criteria (40% on average), but still the negotiations are facing mercantilist forces that impede any further positive development. The negative lists they have adopted are examples of loopholes in the agreement which signal the absence of strong commitment to effective liberalization.

3.2.1 *The Investment Law*

The Investment Law No. 8 of 1997 was designed to overcome the investment impediments which investors confronted in Egypt. It aimed at designing a complete institutional framework to which investors could refer. One of the law's main provisions provided foreign investors with the same treatment that their domestic counterparts enjoyed, thus eliminating discrimination against foreign investors. Moreover, it opened up 18 new fields for investment in which investors enjoyed automatic approvals, tax concessions and exemptions. Such 18 fields were not exhaustive, i.e. the Prime Minister had the discretionary power to add to such fields by executive decree. The Investment Law was a trial to improve the business environment in Egypt to attract more Foreign Direct Investment.

In the implementation of the law, a number of other fields or activities were added to the original 18 fields so as to increase the scope of investment preferences and to redress the neglect of some of the promising fields for investment that the law did not mention.

Indeed, the law had a positive impact on streamlining a number of bureaucratic procedures which investors used to face. However, the reform was not complete. Several investors voiced complaints especially about free zones. Moreover, the law did not succeed in attracting foreign investors as expected due to the instability of political circumstances in the Middle East region and also due to the non completion of structural reforms. In a move to overcome the deficiency of the Investment law, a new chapter to the existing law was added in 2004 aiming mainly to lessen the burden of red tape measures on investors by reducing the steps required to start a new business and designing one-stop-shop bureaus in the General Authority for Investment to facilitate the required steps for investors.

Domestic and foreign investors gained and lost at the same time. They gained a step forward in establishing an institutional framework that addresses their concerns, but they ran high transaction costs due to persistent cumbersome bureaucratic measures, which impeded the enforcement of the law. The government has been a net loser because tax concessions and exemptions were not translated into increased investment opportunities, i.e. reduced government revenues (due to tax exemptions) were not matched by increased investment flows.

3.2.2 Export Promotion Law

The law was passed in 2002 (law 155). The law created a controversy ever since it was drafted: some have pointed out that it is a step in the right direction, while others were pessimistic about its effect in reality. The law aims at enhancing the institutional setup for exporters. Having announced export promotion as a top national priority, the government of Egypt has drafted and passed a law that aims to provide the institutional framework for supporting the exporting community and enhancing exports. This complements the recent establishment of the Ministry of Foreign Trade as a separate entity, which was linked before either to the Ministry of Economy (now abolished) or to the Ministry of Supply. It gives the right to the Minister of Foreign Trade to set all the rules and regulations that are supposed to help exporters. It aims as well at allowing the Ministry of Foreign Trade to coordinate with the Ministry of Finance in supervising the duty drawback system. The intention is to add efficiency to the system, in order to create more incentives for exporters who have suffered in the past from bureaucratic obstacles. Moreover, the law aims at lessening the financial burden exporters face by establishing a fund whose resources are devoted completely to the

promotion of exports and lowering the taxes on the profits that result from exports (10% are the taxes on profits for all exports).

The law is supposed to increase the Egyptian economy's integration in the world economy. Whether this will happen or not, depends on the enforcement of the law and the implementation of other issues related to production and quality. The problem is mainly embedded in the existence of rules and regulations that have been there but were not working (e.g. duty drawback system) so the imposition of a new institutional setup that includes the Ministry of Foreign Trade is no guarantee for the success of effective and efficient enforcement. Streamlining of taxes is a positive step, but the problem that the law did not tackle is the high transaction costs resulting from custom procedures and the higher profits from selling in the domestic market than exporting.

In a nutshell, the impact of such law in integrating the Egyptian economy in the world economy is too early to be assessed and depends to a large extent on the developments in other fields including the macroeconomic environment. Exporters are expected to gain from this law, whereas the ministry of finance is likely to lose some power in securing its revenues.

3.2.3 Temporary Admission, Duty Drawback and Tax Rebate

Egypt has different systems allowing exporters to be exempted from duties imposed on the imported inputs utilized in their final products. These systems apply differently according to the commodities concerned. These systems suffer from weak enforcement. For example, it takes one year on average for an Egyptian exporter to be reimbursed for import duties paid for inputs into the production of an exported product. In other developing countries the average time is three months. This systems needs to be streamlined otherwise exporters clearly lose as a result of higher transaction costs. Thus the new exports' law tries to overcome the weak enforcement of the duty draw back system by engaging the officials of the Ministry of Foreign Trade in its supervision. Whether this will help or not is subject to debate. In addition, the Prime Minister issued a decree in 2002 to reform the whole system, however its impact was not substantially recognized.

3.2.4 The Intellectual Property Rights Law

The Intellectual Property Rights Law was issued in 2002 (law 82 of 2002). Its executive decree has been issued. However, the part devoted to copyrights' protection is still not issued. The law is highly complicated and relatively lengthy. It was initiated to comply with the TRIPS agreement, adjusting the existing laws in a comprehensive manner and a

consolidated format. Some argue that the law was mainly imposed due to external pressure and especially those that came from the US industrial lobbies.

Indeed, the law overcomes some of the loopholes that have existed in the prevailing laws where some of them date back to the 1930s. For example, the copyright law dates back to the 1950s and has been amended in 1992. However, the law has been subject to a long debate. Most of the firms, and especially, public firms working in the pharmaceutical sector have argued that they will lose from the imposition of such law. On the other hand, some pro-law advocates argue that the law will have minimum impact on the pharmaceutical industry due to the high involvement of the government in pricing drugs and the availability of safeguard mechanisms in the law (such as compulsory licensing). Firms working in the field of copyrights have welcomed such law.

A cost benefit analysis for the imposition of such law has not yet been carried out. But according to the literature on that matter, it has been argued that the cost benefit analysis should be done with two indicators, the market size and the ability to innovate. Since developing countries in general have limited market size and low innovative capacity, weak enforcement of IPR may just be to their benefit. Others have argued that this is a myopic view and that countries should enforce IPR properly to enjoy more FDI inflows. Indeed, the case in Egypt differs from one industry to another. For example, it is expected that the pharmaceutical industry will lose whereas the copyright industry (including book publishing, music and film production industries) will probably gain. There is an expected loss for consumers on some of the drugs which will experience a relative increase in their prices.

The main problem is that Egypt lacks the human capacity to implement such law and especially in the field of copyrights. Thus, the arguments raised so far deal with theoretical aspects rather than realistic aspects of enforcement.

3.2.5 Law of Special Economic Zones

The law was passed in 2003. It lowers the burden of corporate and sales tax and provides less unified taxes (on average 10% on profits and revenues) across the board for all industries located in special economic zones. It provides an exemption from the sales tax and an exemption on all inputs from custom duties. The implications of the law on labor are reinforced by the Unified labor law which aims at removing the hazards that complicated the labor-employer relationship in the past.

The impact of the law on investment promotion is rather ambiguous. In theory, the law contains a number of provisions that aim at overcoming the loopholes of preceding investment laws, namely Law No. 8/1997 and the law of free zones. Most importantly, the law aims at eliminating cumbersome bureaucratic procedures: reducing the number of agencies that the investor has to deal with, establishing an efficient dispute settlement mechanism, and simplifying taxes.

In practice, the role of such a law in promoting investment is contingent on the efficient functioning of the system. Moreover, some businessmen have showed their concerns about this law and the possibility of creating a parallel economy, with newly-established firms operating in a more attractive investment environment, while existing firms continue to face much more cumbersome and costly regulatory and tax situation. The concept of an additional law for special economic zones that promote investment and exports has been subject to debate. Some observers argue that an across-the-board set of rules and regulations would be better for the promotion of investment. Others argue that the idea of having special economic zones acts as locomotive spots for investment and that they increase by time, hence expanding investment opportunities. They base their arguments on the role played by special zones in investment promotion in UAE and China.

If the law is to be properly implemented, investors in these special zones will logically be the winners. A lot more may lose: investors not eligible for the privileges of this law because they have located outside the special zones; custom officials and officials from the Ministry of Supply and Trade who have to trace the possibility of smuggling of the products of such zones in the rest of the economy.

3.2.6 Competition Law

The law is still in draft format and has been pending for parliamentary approval since 1997. The version of the final draft has changed several times in that period. The latest version has been finally approved by the Parliament in 2005.

Egypt has a bunch of laws and regulations in criminal and civil law that deal with anticompetitive behavior, but it never had a comprehensive competition law. The fundamental question is whether Egypt needs a competition law. There are various reasons why this question should be answered positively. The opinion that Egypt should adopt a competition law is based on the “domino effect” where a large number of developing countries are adopting competition laws. Another is the role of EU-Mediterranean Partnership Agreement, which included a provision stating that Egypt should adopt a competition law in

line with that of the EU within 5 years from entry of the Agreement into effect to be applied on goods traded with the EU. Finally, there is the conventional argument that Egypt should adopt a competition law because such law is a pillar of any market economy.

The draft law has several limitations, which can negatively impede the achievement of its objective. For one, no explicit targets are identified: is it the promotion of development or the enhancement of efficiency or the preservation of social stability? On a lesser extent of complexity, the law does not explicitly state whether it aims at regulating or eliminating monopolies. There is no clear definition for the market: is it only the Egyptian market or is it the extended Arab market or the European market based on the free trade agreements that will materialize soon. There is no clear definition for predatory pricing. Furthermore, the relationship between the body governing the implementation of the competition policy with other bodies such as the Center of Countervailing Measures and Antidumping or the body governing the privatization process is not mentioned. Moreover, the absence of important related laws, such as the forthcoming consumer protection act, sheds doubt on the efficiency of implementing such law. All such loopholes imply that it is expected that the law will face a great deal of enforcement problems.

Some argue that part of the problem with such a law is that it leaves too much out of its control. For one, the informal sector, which comprises in some instances a major part of the market, will / can not be covered by the law. Furthermore, the services sector, which is 65% of the Egyptian economy, is not covered by the law.

Whether the law will enhance FDI or not, is something that is really difficult to predict. On the one hand, multinationals might search for countries that do not adopt a competition law as it can negatively affect their profit prospects. On the other hand, the EU, which has a large share in FDI flowing to Egypt, might be reluctant to continue its activities in Egypt if Egypt does not abide by the rules of the Partnership agreement or if there is no strong enforcement of its provisions. To sum up, the impact of the adoption of a competition law in Egypt on investment is rather ambiguous, partly because of the unclear main features of the law and partly because of the undetermined effects on the developmental prospects of the country, which are not stated explicitly in the law. The absence of well defined thresholds for different industries in the law implied such confusion.

Expected winners are small and medium firms in competitive industries that have suffered from the dominant position of one or few firms or lost from anticompetitive behavior in monopolistic or oligopolistic industries. Expected losers include the government due to high

enforcement costs. Among the losers are inefficient firms that have still not utilized their optimum size due to the limited size of the market and have until now enjoyed their sole position in the market.

3.2.7 Labor Law

The law was passed in in 2003 (Law 12 for 2003). It was heavily discussed by the Parliament but has already been discussed and some of its articles have been modified by the consultative council “Shoura Council” in 2002. It received comments from the Economic Committee of the ruling National Democratic Party (NDP) in 2001 and 2002. The draft was ready since 1994 and has been modified several times since this date.

The intention of the law is to keep up with the major changes that happened to the Egyptian economy in terms of coping with the move toward the market system and complying with the different international agreements of which Egypt has become a member. As stated by the different stakeholders in their meeting on 22/12/1994 to approve the draft, it is intended to upgrade the institutional setup of the labor market and to narrow the gap between the various points of view expressed by different stakeholders. The meeting included the General Association for Labor Unions in Egypt, the Federation of Egyptian Industries and Business Associations, in addition to the government.

The law contains some provisions that allow greater flexibility in the labor market. Whether such provisions will help to enhance investment and initiate a greater flexibility depends on the enforcement mechanisms. A number of such provisions are stated below:

- The law ensures the right of the firm to downsize and release labor according to its economic performance. This right is currently denied in the status quo law. Thus businessmen have been resorting to temporary contracts which last several years in order to avoid being stuck with extra labor that they cannot get rid of in case of economic downturn.
- According to the law, the issue of downsizing and releasing labor has to be discussed by a committee and labor is allowed to appeal. The functioning and speed of such system is not yet known.
- The law addresses labor training and certification. This is a major achievement since it guarantees employers a market of reasonably skilled labor to employ, a point of constant complaint from employers. The problem is in the implementation, where the law was vague regarding the training institutions and the accreditation of the certificates they provide.

- The law does not provide any incentives for SMEs. On the contrary, it adds extra burdens on SMEs by asking them to follow regulations that they have not had to follow under the law of the status quo. Moreover, the law is not clear about the benchmark for defining SMEs (sometimes less than 10 and sometimes less than 50).
- To preserve the rights of labor, the draft law insists on the right of workers to cancel their resignation in a week's time from its submission. This provision is invoked to overcome the maneuver by some employers and their exploitation of workers.
- More restrictions on SMEs working in the field of labor hiring is put where a certain minimum for their capital is required and only some legal forms of enterprises are allowed to work in this field.

The gain that will accrue to the economy in terms of increased investment is hard to define according to this law. Indeed, the absence of incentives for SMEs, the vagueness of the enforcement mechanisms, and of the training issue may act as disincentives for investment. It is difficult to identify any winners from this draft law except for ill-trained workers and weak performers who still have great prerogatives to attain their job. The commitment of the government to ensure employment will cause firms to lose on the front of flexible hire and fire mechanisms, although the draft gives firms some leeway to downsize manpower in bad economic situations. Some are concerned that this law could force some small enterprises to go informal.

The labor unions may be winners from this law which sanctions the right to strike and to collective bargaining, however under certain conditions. However, as it stands, the law cannot be implemented by labor unions that are not technically or politically capable of playing the roles assigned to them in the draft law (El-Mikawy and Posusney in Handoussa and Zafiris 2002).

3.2.8 Standards

The system of formulating standards in Egypt is lagging behind international norms. It is subject to the discretionary power of ministers and suffers from a large degree of non-transparency and vagueness. Egypt's exports are thus subject to rejection, as they do not follow the international standards, while imports are subject to a non-transparent system due to the absence of announced rules (case of beef imported from US and EU). In addition, the absence of an efficient system of standardization leads to the leakage of some imports, which do not follow the international norms and might affect negatively the trade balance.

Standards are subject to Law No. 2 for 1957. They are formulated and set by the Egyptian Organization for Standardization and Quality Control (EOS), while verification of compliance is the responsibility of agencies affiliated to different ministries, including Ministries of Health, Agriculture, Atomic Energy Authority, and the General Authority for imports and Exports control in the Ministry of Trade. Importers are usually asked to inform the General Authority of Imports and Export Control about the standards to be applied to imported goods prior to importation. The fact that the formulation and enforcement of standards are carried out by different organizations within different ministries makes their administration complex.

All product standards in Egypt are formulated and set by EOS in the Ministry of Industry. The EOS was formed by the Presidential decree number 392/1997 and its activities include issuing standards and technical specifications for raw materials and industrial products, testing conformity with established standards and specific standards and training. Drafts are developed by EOS in consultation with technical committees of which there are currently around 100. The committees include representation from research organizations, control authorities, producers, consumers, and chambers of commerce and industry. A draft standard once developed by the technical committee is circulated to all interested persons for comment for a period of at least 2 months. Once all relevant comments have been incorporated and a final draft developed, the standard must be formally adopted by the EOS. Egyptian Standards are reviewed periodically, usually once every five years, to ensure their relevance to current requirements.

In 1997, there were around 4000 standards in Egypt, of which 10% were mandatory. The majority of the mandatory standards are concerned with food products, engineering goods and textiles and clothing. In addition to standards the EOS also issues quality and conformity marks. The quality marks are issued by the EOS upon request from a producer, is valid for two years and is subject to random testing.

Hence, standards have been a major complaint by Egypt's main trading partners. Whether it is the EU or US, there have been several appeals by their trading companies that they face hazards when their products enter Egypt. A large set of Egyptian products do not follow international standards. The number of items in such set reached a high percentage of more than 80% of tariff lines that do not follow international standards. This affects negatively the integration of Egypt in the world economy. For example, Egypt raised the number of imported products subject to quality control measures from 69 in 1992 to 182 in 1998. While such measures are necessary to ensure minimum health and safety standards, they may have been applied in a discriminatory fashion depending upon the use of the imported items

(WTO, 1999). Another example is the average customs clearance transaction in Egypt which requires 25-30 stages and takes from one day to several weeks (Zarrouk, 1999, p. 4).

Traders in general suffer from the absence of well defined standards so as consumers and hence a transparent system of standards is likely to make them winners. Losers include some of the inefficient producers who lack the ability to comply with standards.

3.2.9. The Taxation System in Egypt

Egyptian government revenues depend on two indirect taxes (imports and sales) and two direct taxes (business and personal incomes). In addition to the revenue it provides, each tax affects the efficiency of the decisions that Egyptian consumers and producers take, the distribution of well-being in Egyptian society and the burden of tax administration. These criteria form the basis of an assessment of all tax systems.

The two indirect taxes have been reformed recently and the statutes are broadly consistent with good performance in this area. There is, however, scope for further efficiency gains by eliminating taxation of various inputs (cascading). There is also the potential for increasing efficiency and equity and for easing the burden of administration by changing the structure of rates.

Statutory tax rates on business income are comfortable with international practice, but the statutory system of deductions that determines the tax base has very complicated effects on the incentives to invest. There are large tax subsidies to investment through large established corporations while non corporate business or new corporations experience large tax penalties. There are large subsidies to debt finance and favorable tax treatment of financial intermediaries, especially pensions and insurance. There are large distortions to individual portfolio decisions.

Personal income is taxed depending on the source of income. Although statutory rates can be high, deductions mean that few taxpayers pay rates above 30%. The combination of the various taxes and their deductions, however, seems to result in marginal rates that are first around 30%, perhaps fall to 15% and then rise again back to 30%. The statutes provide some deductions that may lower rates even further, and the system does not seem to be an instrument for income distribution.

Tax administration has a penalty structure that ensures that taxpayers find it generally desirable to comply with the tax system. Under the Egyptian statutes, however, there is little

or no financial incentive to pay taxes in a timely fashion. Furthermore, there is casual evidence that there is a large gap between what the statutes specify and how the tax administration works.

The marginal effective tax rate on capital is relatively high in Egypt compared to other developing countries. On average, export activities face lower marginal effective tax rate than inward oriented activities. The tax system favors joint stock companies listed on the Stock Exchange over other legal forms of companies. It also favors manufacturing over services, debt over equity financing and land over capital assets.

Current Income Tax System: Both businesses and individuals are taxed on their income under the recently amended Law No. 187 of 1993 which surpassed Law No. 157 of 1981. Prior to the 1993 amendment, the Egyptian income tax system was scheduler in nature, since different income sources were taxed according to separate schedules of rates and deductions. Under the unified income tax of 1993, some of these schedules were unified for tax purposes as a partial step towards a global income tax approach. Under the unified income tax, income earned by non corporate firms, non commercial professionals and any income received from the ownership of real estate is aggregated for tax purposes and subjected to the same set of tax rates and allowable deductions. The tax base for non corporate firms (sole proprietorships, partnerships and simple limited partnerships) that are subject to the tax on commercial and industrial net profits is for the most part defined in a manner that is consistent with the definition of the corporate tax base. Non corporate firms however depending on their income level face six tax rates ranging from 20 to 40 plus a 2% development duty. Non corporate exporters and manufacturers are taxed at 70 and 80% of the normal tax rate (after the first stratum of their net profits which is L.E. 8000). A new law is being drafted now with the main aim of reducing the taxes on incomes.

Business Income Taxation: The system involves direct taxes such as income and property taxes as well as indirect taxes including the sales and custom duties, stamps, and other surcharges. The tax system also provides special incentives under different income and investment laws to encourage investment. The government relatively applies high and non uniform profit tax rates (Table 10).

The tax rates vary according to the nature of the activity. For corporate firms engaged in services, the rate is 40% whereas the rate for corporate firms undertaking manufacturing and exporting activities is only 32%. Profits of non corporate firms are subject to personal income tax rates ranging between 20 and 40% depending on the income bracket. A new law is being drafted which aims at reducing the corporate tax to 20% while eliminating the differences

between industrial and non industrial activities. This draft law has faced oppositions from the Federation of the Egyptian Industries arguing that such equal treatment will lead to anti industrial bias. The draft law aims as well at eliminating tax exemptions, which again was not highly welcome by the business community in general.

In terms of revenues, corporate taxes are an important source of revenue. Corporate taxes in 1995 generated 23% of total tax revenues which is much higher than the average of 9% for a selected sample of countries in the MENA region. Similarly the share of revenues from corporate taxation to GDP in Egypt for the same year was higher than the average of other countries. The revenues from corporate taxation in Egypt are dominated by taxes from the government economic authorities: The Suez Canal, oil sector and the Central Bank of Egypt. Nearly 60% of the corporate tax yield is attributable to these economic authorities.

While corporate and non corporate tax revenues account for about 32% of total tax revenues, indirect taxation revenues account for more than 50% of the total. Within the category of indirect taxation, the importance of import duties is declining and is expected to continue like that. Sales tax and stamp duties are gaining new grounds as they are becoming a principal source of tax revenues.

Deductions and Allowances: Like corporate taxation regimes elsewhere, the tax law in Egypt provides different forms of deductions and allowances. These include annual depreciation deductions to compensate for assets deterioration as well as initial deductions granted to investment in new machinery. In addition the tax law allows for the deduction of interest on debt from taxable income. There are also special allowances granted to certain organizational form such as the paid up capital allowances granted to joint stock companies listed on the stock exchange. These differential treatments across assets, sources of finance and organizational forms clearly affect the pattern of investment decisions.

Incentive Schemes: Investment schemes are a prominent feature of Egyptian tax policy, where the preferred form is tax holiday. Egypt uses tax holidays to promote certain activities and to encourage new industries to locate outside Cairo and Alexandria. Tax holidays vary between 5-20 years and extend to lifetime exemptions from taxes in the case of free zone investments. Several laws (Law 8 for Investment, Law 159 for Companies, and Law 59 for New Urban Communities) govern the exemption patterns in addition to exemptions contained in the tax legislation itself.

Tax Compliance: High and non uniform tax rates coupled with generous incentive schemes and a multiplicity of tax deductions and allowances tend to complicate the tax administration and hence weaken tax compliance. The 250,000 pending tax cases in Egyptian courts are a good illustration of the cumbersome nature of tax administration. Although accurate estimates for tax compliance in Egypt are not avoidable, it is estimated that annual tax evasion ranges between L.E. 14 billion and 17 L.E. billion, of which 6 billion applies specifically to income tax evasion. However, Egypt is not highly different from other developing countries in this regard after taking into account the level of its development.

These features of tax regime make it difficult to evaluate the net effect of taxation on marginal investment in Egypt. On the one hand, the generous tax incentive scheme and tax evasion have the effect of reducing the cost of capital. On the other hand, high statutory tax rates, extensive use of indirect taxation and cumbersome tax administration procedures have the effect of increasing the burden of taxation.

3.2.10. The Auditing Standards in Egypt

In line with the general modernization move and transformation to a market economy and to enhance attraction of FDI, the government of Egypt started since the early 1990s several reforms in the area of auditing standards. The main law dealing with this issue is Law 95 for 1992 (Law of Capital Market) which is responsible for obliging the firms to design their budgets and other financial reports according to the international auditing standards.

This law has seen several amendments starting with the ministerial decree of the Minister of Economy No. 478 for 1997 for creating a permanent committee responsible for designing the accounting and auditing standards. The committee has designed such standards to be in line with the international norms. After this decree, other decrees followed aiming towards further streamlining and bringing the Egyptian standards in line with the international standards (Ministerial Decree No. 503 for 1997 responsible for the Egyptian Accounting Standards and Readjusting of the Financial reports for the different kinds of firms, and the Ministerial Decree No. 345 for 2002 responsible for further adjustments).

The budgets or financial reports can use foreign currency subject to certain conditions. Firm investments are subject to different treatments following its classification into convertible investments (convertible to cash), long term investments, and real estate investments.

4. BEYOND GROWTH, INVESTMENT AND EXPORT PROMOTION: COMPETITION AND FREE MARKET RULES

Egypt, as many other developing countries, has experienced an increase in the size of the private sector during the 1990s. The drive for smaller government, greater openness, and more active private sector participation in economic activity is part of a global trend, as countries increasingly rely on market forces, private ownership, and integration in the world market is rather a worldwide phenomenon (ERF, 1996). This drive stems mainly from the failure of the government in managing economic activities and the widening budget deficits. Nevertheless, such increase in the size of the private sector is subject to consideration if we want to arrive at an accurate estimate of the size of the private sector in Egypt. The intention of this section is to shed light on the size of the private sector in the Egyptian economy.

4.1 Public vs Private Sector Development

The size of the public sector declined significantly over the last decade whereas the size of the private sector increased. During the period 1991/1992 to 2001/2002 the relative share of the public sector in GDP decreased by fifteen percentage points as shown in Table 11. Moreover, the sectoral distribution of the public versus private sector varied from one sector to the other. In some sectors such as commodity sector, hotels and restaurants, and industry and mining, there was a huge decrease in the size of the public sector (mainly due to privatization). In other sectors, the reduction in the size of the public sector was minor as the case of agriculture and electricity. Other sectors' structure did not change where it either remained dominated by the public sector as social services or by private sector as personal services. It was only in the construction and building sector where the size of the public sector increased significantly. The data presented understate the size of the public sector to a certain extent. In relation to GDP, the underestimation arises because the national income accounts do not include grant-financed military expenditures, which constitute about 3 percent of GDP. Also, the joint-venture companies in the industrial sector (about 184) are classified as private sector, whereas in reality some of them are majority owned or controlled by the public sector.

4.2 Dominance of Small and Micro Enterprises

There exists various categories of economic participants within Egypt's private sector. On one end of the size spectrum, formal medium and large enterprises enjoy a high degree of protection, get all the institutional private credit, use relatively advanced technologies and

management, make most of the country's private investment, deliver most of its private exports and pay higher salaries. On the other end, there exist small and micro, largely informal, units that are financially constrained, turn out most of the country's private output and account for most of its private jobs (World Bank, 1994).

The medium and large enterprise sector is not numerically large, however; 99 percent of the private nonagricultural establishments are either micro or small firms; that percentage is not much smaller within private agriculture (about 90 percent). Yet, medium and large enterprises are institutionally visible, well connected and incorporated into relatively sophisticated legal forms (joint-stock companies, limited liability concerns, partnerships with shares) while micro and small firms are broadly unrepresented, inconsistently regulated (even when fully registered) and set up in simple ownership structures (single proprietorships, partnerships). The distinction between "large" and "small" within Egypt's private sector is also manifested in terms of policy sensitiveness and across types of activity (World Bank, 1994).

The public enterprises were estimated to produce about one-tenth of the GDP and employ about six percent of the labor force on average in the 1990s (World Bank, 1999). In the 1990s the situation started to change where Egypt embarked on an economic reform and structural adjustment program (ERSAP) implemented jointly with the World Bank and the International Monetary Fund (IMF). A major component of this reform program was reducing the size of the government and increasing the size of the private sector by adopting an ambitious privatization program. This has been achieved in almost all industrial sector activities with the exception of mining and quarries. In general, the size of the public sector in industrial production decreased from 63.4% in 1994/1995 to 33.4% in 1999/2000. As of March 2003, 193 entities had been privatized since 1993, generating proceeds of LE 17.1 billion. However, only 10 deals valued at LE 346 million were completed in 2002, including asset sales, anchor sales and sales to employee shareholders associations, compared to an annual average of 25-30 transactions worth LE 2.5-3.5 billion from 1996 through 2000. During the first quarter of 2003, the only privatization transactions were the leasing of two minor state-owned assets to private firms.

The size of the private sector has been on an increasing trend since the start of 1974 Open Door Policy. There has been an increase in size in absolute as well as in relative terms. However in relative terms, the large size of the government controlled sector has rendered a relatively small increase in the size of the private sector (after taking in account all government controlled sectors and not only public and public enterprise sectors). The

process of privatization brought by the ERSAP has reinforced increasing the size of the private sector and it started to increase in absolute and relative size when compared with the public sector.

4.3. Weak Market Competition

However, the increase in the relative size of the private sector was not necessarily translated in a) enhanced competition and, b) increase in private activity undertaking. Regarding enhanced competition, we observed that a private monopoly in many cases have just replaced a public monopoly. In other cases, the inefficiency that used to prevail in the era of public sector domination was replaced by an era of mergers and acquisitions that led in many cases to high concentration ratios and anti-competitive behavior.

The “announced” or “published” increased size of the private sector was not always met by a real increase in the private activities’ undertaking. In many cases, the privatization was done on paper, but the government kept controlling the actions of the private firms. This was the case in many privatized firms in specific sectors (e.g. rice mills).

To sum up, it is worth mentioning that the size of the private sector has increased both in relative and absolute terms. There are some drawbacks of the “theoretical” expected benefits of increased participation of the private sector. The main drawbacks are represented in the absence of a competition policy which led in many cases to the inability to prevent anticompetitive behavior and the continued intervention of the government in the privatized firms’ management.

CONCLUSION

This paper has shown the extensive legal reform that has characterized Egypt’s intention to adjust its legal framework for a better business and growth environment. However the aforementioned analysis points towards some shortfalls that need to be remedied, if Egypt is to benefit from its good intentions.

The quality of the law making process suffers from weak implementation capacities. This is particularly obvious in the case of the customs law, taxes law, competition law, labour law, information act and standards. The law making process also suffers from severe weaknesses in the coordination among ministries and public authorities, the export promotion law being one example. Finally, knowing the market impact of laws and consulting

on these and other issues with other stakeholders is ad hoc, sporadic and lacks transparency; the case of the intellectual property rights law and the investment law are two examples thereof.

Table 1: Inflation in Egypt

Inflation in Egypt												
	1985	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Inflation, consumer prices (annual %)	12.1	16.8	19.7	13.6	12.1	8.2	15.7	7.2	4.6	4.2	3.1	2.7*
Inflation, GDP deflator (annual %)	9.0	18.4	14.5	19.7	9.9	7.1	11.4	7.1	5.9	3.6	1.7	

Source: World Bank Indicators, 2001.

* Figures from EIU Country Report & Forecast, 2002.

Table 2: GNI Per Capita Egypt & Selected Countries 1990-99 (current US\$)

Gross National Income per capita(current US\$)											
Country Name	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2002
Algeria	2400	2040	1980	1790	1660	1590	1540	1520	1570	1550	1720
Bahrain	6750	6990	8210	8660	8230	8660	8640	8280	7640	..	..
Egypt, Arab Rep.	810	780	800	800	870	990	1100	1200	1280	1380	1470
Jordan	1390	1120	1330	1390	1470	1600	1620	1620	1630	1630	1760
Morocco	1030	1100	1100	1060	1170	1120	1300	1250	1250	1190	1170
Saudi Arabia	6700	7440	7850	7500	7140	7180	7360	7590	7170	6900	8530
Syrian Arab Republic	900	980	1080	1070	1150	1210	1180	1050	1030	970	1130
Tunisia	1430	1490	1700	1690	1740	1820	2000	2080	2050	2090	1990
United Arab Emirates	19930	18570	19030	17680	17940	19340	20830	20340	17870	..	..
Lower middle income	920	960	940	940	930	1010	1120	1220	1190	1200	1400
Middle East & North Africa	1710	1740	1810	1750	1750	1800	1940	2050	2060	2060	2240
Latin America & Caribbean	2240	2490	2810	2950	3220	3360	3640	3900	3870	3800	3280
East Asia & Pacific	570	630	690	740	820	940	1080	1140	1000	1010	1170
South Asia	380	350	350	330	350	380	410	420	420	440	460
Sub-Saharan Africa	550	550	550	530	510	520	540	540	510	490	450

Source: World Development Indicators, 2004.

Table 3: Unemployment Rate in Egypt

Unemployment in Egypt (% of total labor force)												
1985	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000*	2001*
..	8.6	9.6	9.0	10.9	11.0	11.3	..	..	..	..	11.8	12

Source: World Development Indicators, 2001.

* EIU estimates.

Table 4: Subsidies as Percentage of Total Expenditure

Subsidies as % of Total Current Expenditure						
1991	1992	1993	1994	1995	1996	1997
11.2	11.9	8.5	6.5	6.6	7	7.3

Source: IMF, Government Finance Statistics, 2001.

Table 5: Share of SOE in GDP in Selected Countries

Country	Average size of SOEs to GDP (percent, 1978-91)	Year of Beginning SOE reform
Chile	13.8	1974, 1985
China	53.0	1984
Czech Republic	95.9	1991
Egypt	34.1	1991
Ghana	7.0	1983
India	12.1	1985
Republic of Korea	9.9	1983
Mexico	11.6	1983, 1988
Philippines	1.9	1986
Poland	71.4	1990
Senegal	7.7	1986
Turkey	7.5	1983

Source: World Bank, 1995.

Table 6: Egyptian Signing of Regional & International Trade Agreements in 1990-2000

Agreement	Year
A series of bilateral trade agreements with Arab countries - Iraq 2001 (Implementation Protocol) - Jordan 1998 (Agreement for Free Trade Exchange) - Lebanon 1998 - Morocco & Tunisia 1998 (Agreement for Free Exchange) - Syria 1991 (Trade Agreement) - Libya 1990 (Trade and Customs Agreement)	in 1990s
World Trade Organization	1995
GAFTA agreement (10 years transition period)	1997
COMESA agreement	2000
Trade & Investment Framework Agreement (TIFA) with US	1999
EU association Agreement	2001
Aghadir Free Trade Agreement with Jordan, Tunisia, Morocco)	2004

Table 7: FDI Inflows to Egypt & their Annual Rate of Growth 1996-2003 (mill. US\$)

	1996	1997	1998	1999	2000	2001	2002	2003
FDI Inflows	636	891	1076	1065	1235	510	647	237
ANNUAL RATE OF GROWTH (%)	7	40	20	-1	15	-58	26	-63

Source: World Investment Report, 2004

Table 8: Share of Private and Public Investment in GDP

The Contribution of Private and Public Investment to GDP		
Egypt		
Year	Private Share in GDP (%)	Public Share in GDP (%)
1990	16.7	10.2
1991	13.1	9.2
1992	10.5	8.5
1993	9.2	7.1
1994	10.5	6.1
1995	10.7	5.5
1996	10.5	5.5
1997	12.1	5.6
1998	14.9	7.2

Source: ERF 2002
(compiled from World Bank Development Indicators, 2001).

Table 9: List of Exceptions in the GAFTA Agreement

Country	Number of Tariff Lines Excluded	Number of Tariff Lines at 8 SITC digit level	Percentage of excluded goods to the total of traded goods
Jordan	35	13370	0.26
Tunisia	156	13370	1.16
Syria	267	13370	1.99
Lebanon	115	13370	0.86
Egypt	616	13370	4.61
Morocco	898	13370	6.72
Total	2087	13370	15.61

Source: Arab League (2001), *The Unified Arab Economic Report*, p. 209

Table 10: Corporate Tax Rates in Selected Developing Countries, 2000 (%)

Country	Corporate Tax Rate
Egypt	32-40
Turkey	33
Morocco	35
Tunisia	35
Israel	36
Argentina	35
Brazil	37
Chile	15
Mexico	35
Peru	30
Indonesia	30
Singapore	26
Hong Kong	16
Korea	31

Source: ECES working paper, no. 45 (2000)

Table 11: Private versus Public Shares in GDP, and Different Sectors

SECTORS	1991/1992		1995/1996		1999/2000		2000/2001		2001/2002	
	Public	Private	Public	Private	Public	Private	Public	Private	Public	Private
GDP	38.8	61.2	36.6	63.4	26.9	73.1	24.0	76.0	23.7	76.3
Commodity Sectors	37.2	62.8	35.7	64.3	23.6	76.4	17.8	82.2	17.0	83.0
Agriculture	1.2	98.8	0.7	99.3	0.4	99.6	0.4	99.6	0.4	99.6
Industry & Mining	41.9	58.1	37.8	62.2	13.3	86.7	12.2	87.8	11.3	88.7
Petroleum & Products	82.7	17.3	83.9	16.1	86.2	13.8	83.4	16.6	79.5	20.5
Electricity	100.0	0.0	100.0	0.0	100.0	0.0	0.5	99.5	0.5	99.5
Construction & Building	29.2	70.8	27.9	72.1	40.9	59.1	40.9	59.1	40.8	59.2
Productive Services Sectors	37.9	62.1	33.6	66.4	21.8	78.2	21.2	78.8	21.0	79.0
Transportation & Communications	52.1	47.9	48.7	51.3	17.4	82.6	17.5	82.5	16.4	83.6
Suez Canal	100.0	0.0	100.0	0.0	100.0	0.0	100.0	0.0	100.0	0.0
Trade	10.3	89.7	6.7	93.3	4.0	96.0	3.5	96.5	3.3	96.7
Finance	70.7	29.3	69.5	30.5	67.5	32.5	67.0	33.0	66.8	33.2
Insurance	60.5	39.5	59.6	40.4	57.4	42.6	57.6	42.4	55.7	44.3
Restaurants, & Hotels	15.3	84.7	14.8	85.2	1.7	98.3	1.6	98.4	1.6	98.4
Social Services Sectors	45.1	54.9	45.0	55.0	45.3	54.7	45.3	54.7	45.7	54.3
Real Estate ownership	5.4	94.6	5.6	94.4	3.7	96.3	3.5	96.5	3.3	96.7
Public Utilities	100.0	0.0	100.0	0.0	100.0	0.0	100.0	0.0	100.0	0.0
Social insurance	100.0	0.0	100.0	0.0	100.0	0.0	100.0	0.0	100.0	0.0
Government services	100.0	0.0	100.0	0.0	100.0	0.0	100.0	0.0	100.0	0.0
Personal services	0.0	100.0	0.0	100.0	0.0	100.0	0.0	100.0	0.0	100.0

Source: Author's calculation based on Central Bank of Egypt, *Annual Time Series*.

Annex 1: Investment Laws in the 1990s

Law	Purpose	Fate
11/1991	Unified Sales Tax, replacing consumption tax law 133/1981	To be implemented in three phases. Only the first phase is in implementation. Businessmen want to amend it to remove tax on capital input into production
203/1991	Creating Public Enterprise Companies, replacing law 97/1983.	Succeeded in freeing public sector of political executive intervention. It also put the bases for the privatization of the public sector.
95/1992	Capital Markets law.	Implemented with the executive decree #135/1993
5/1996	Offering state desert land for investors.	
72/1996	Amending law 143/1981 concerning tax exemptions for touristic and land reclamation projects	
89/1996	Amending Capital Markets law 95/1992	
90/1996	Amending income tax law 157/1981.	It exempted investment funds under law 95/1992 from taxes.
92/1996	Amending law 111/1980 on government charges.	It affected positively electrical consumption and land reclamation projects.
97/1996	Amending banks law 163/1957 & central bank law 163/1975.	It allowed private capital share in joint banks to exceed 49%.
100/1996	Amending law 12/1976 on General Electricity Agency.	It allowed the private sector into the electricity market under BOT conditions.
228/1996	Canceling article 3 of law 38/1994 regulating foreign currency trade.	
229/1996	Amending law 84/1968 on surface roads.	It allowed the private sector to invest in surface road networks under BOT conditions.
230/1996	Regulating foreign ownership of empty land & real estate.	
3/1997	Regulating the privatization of airports	It allowed the private sector into the field of civil aviation and related services under BOT conditions.
8/1997	Unified Investment law	It guaranteed investors no sequestration or nationalization; it exempted investment outside the Nile valley from taxes and extended the tax exemption to 20 years. It ended the policy of giving permission for investment in particular sectors and not in others, opening up the investment possibilities for public, private, foreign and Egyptian investors.
1/1998	Privatization of maritime services	It allowed private sector into maritime shipping.
5/1998	Cancels a tax advantage that allowed banks & other financial institutions to deduct interest on income incurred in order to purchase tax free securities.	Executive decrees of the law have already been issued in the hope that the law would spur innovation & healthy competition among banks to engage in productive activities & extend loans to smaller businesses with higher but riskier returns.
19/1998	Law of Telecommunication	It made the National Telecommunication Agency a share holding enterprise.

Law	Purpose	Fate
155/1998	Partial privatization of public banks	It allowed private capital contribution to the capital of public banks
156/1998	Privatization of insurance services	It allowed the private sector to hold shares in public insurance companies & removed the condition of having an Egyptian managing director.
158/1998	Amend article 18 of capital market law 95/1992	Allows book-keepers and companies dealing in central depository to dematerialize shares.
17/1999	Trade law	It is being considered before the Constitutional Court, which is checking its constitutionality.

Source: Economic Report, al-Ahli Bank of Egypt & Egypt 2000, a report of the Ministry of Economy supported by the International Center for Economic Growth (ICEG).

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