MEDRESET Working Papers

No. 26, November 2018

Assessing EU–Mediterranean Policies in the Field of Industry from a Bottom-up Perspective: The Case of Egypt

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This project is funded by the European Union's Horizon 2020
Programme for Research and Innovation under grant agreement no 693055.

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Abstract

The present report analyses the situation of the Egyptian industry sector within the framework of the EU-funded project MEDRESET and investigates Euro-Mediterranean industry policy in Egypt. The report assesses the EU's involvement in industry-related programmes in light of Egyptians' welfare and with a view to responding to MEDRESET's set of questions. To this end, we conducted our research reaching out to a large set of stakeholders, including some who are not regarded as traditional partners of international organizations (i.e., informal contacts, media, etc.). We used this approach to circumvent fieldwork limitations imposed by Egypt's current political situation. These limitations include the absence of local critical studies on the country's industrial policy and on EU policies indirectly pertaining to the industrial sector through the Free Trade Agreement, as well as the inability to carry out the project's recursive multi-stakeholder consultations with representatives of local civil society actors, as planned in the MEDRESET project. These pitfalls also resulted in our inability to wholly reflect on the gender dimension of the industrial policy, despite the significant presence of female workers in the textile sector. Regarding the main findings of this report, the EU policies after the Association Agreement appear to have shifted from a light concern on industry to trade reform. Given the focus on "aid for trade", the scope and the impact of the EU programmes on Egyptian industry are difficult to assess, as they appear to marginally influence the economy and the sector. Moreover, the EU policy related to trade orientation comes in contradiction to the population needs, as trade liberalization tends to favour the EU over Egypt. The structure of both trade and foreign direct investment has a low impact on Egypt's employment.

1. Methodology

MEDRESET Work Package 6 aims to investigate Euro-Mediterranean policy regarding industry in Egypt "to deconstruct the theory and practice and try to pave the way for a new approach or consolidate what has been gained so far" (Moisseron et al. 2017b). In this context, the research seeks to understand if EU policies related to the industry sector in the country respond to Egyptians' welfare and to local economic needs (e.g., job creation, industrial diversification, effects for local firms vis-à-vis multinational companies, etc.). In this regard, specific attention is given to the scope and objectives of the EU industry policy contained not only in political declarations, but in the reality of its instruments. Hence, we seek to investigate the

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following questions: To what extent does Egyptian industrial policy suit that of the EU? What recommendations can be made to support Egypt in shifting towards a more inclusive growth?

In this investigation we relied upon the existing and accessible documentation: EU-produced documentation (i.e., reports and decisions), Egypt-produced documentation (i.e., institutional documents or statements, media materials, including daily reports from grassroots organizations) and grey and academic literature when deemed relevant to the EU–industry–Egypt nexus. We have also included papers from Egyptian think tanks, such as the Egyptian Center for Economic Studies (ECES) and the Economic Research Forum (ERF), which provide much analysis on trade and employment. In light of the current fieldwork limitations, media content and grassroot-produced material provided timely, spontaneous and sometimes critical opinions. However, we cannot disregard the fact that a large part of civil-society-generated documentation is descriptive and laudatory of the Egyptian ambitions, as in the case of the "New Suez Canal" coverage, where grassroots organizations seem to buy into the mobilizing and legitimizing efforts of the current government. The industry is a very strong political marker, as shown by the "2030 Vision", and is part of a state ambition that does not suffer much criticism.

The methodology for this report adheres to the framework proposed in the MEDRESET Methodology and Concept Paper No. 8 (Moisseron et al. 2017b) as defined in its section 4. However, unlike MEDRESET's other country-case studies (Morocco, Tunisia and Lebanon), it was not possible to carry out recursive multi-stakeholder consultations with representatives of the selected civil society associations, in light of Egypt's particular political situation. The main difficulty is the scarcity of sound and critical analyses of both the industrial strategy of the current Egyptian government and of industry-related EU policies. Our inability to conduct fieldwork did not enable us to compensate for the absence of gender-related data or of disaggregated data on employment (i.e., mining, textile sectors).

2. General Background Analysis on the Industry Sector in Egypt

It is difficult to capture the current Egyptian industrial context without reflecting on Egypt's industrial culture. The economic system is predominantly state-driven and characterized by oligopolistic companies intimately connected to power structures and by a large informal sector; the military being also one of the leading economic actors (Marshall 2012, Frisch 2013). However, even if decades of neoliberal reforms tried to orientate the economy towards a more private sector approach, Egypt can hardly be considered a free market economy (Joya 2011). Corruption, lack of transparency and connections between political and economic elites make for a system with high entry costs for newcomers, strong clientelism, allegiance relations and need for political mentorship; hence, the system is sometimes described as a form of crony capitalism (Chekir and Diwan 2014) or a system driven by economic insecurity (Moisseron and Clément 2007). As a result, Egypt is trapped in a model that is averse to private investments, innovation process and openness to newcomers. Additionally, the industry is characterized by its low manufacturing capacity and is mainly based on energy, construction and textiles (see below). Consequently, the current industry structure does not respond to the immense employment needs, in spite of successive pharaonic developments plans and the prospective launch of new programmes and economic reforms. Egypt's long-standing economic crisis

and lack of in-depth structural change have piled up over time. Although, as shown below, Egypt has strived for the development of selective industrial policies over the last decades, these largely proved ineffective in promoting the economy's liberalization. Despite the lack of tangible results, the longstanding history of selective and state-driven industrial policies remains at the core of the country's national development strategies (Loewe 2013), making difficult the case for change.

2.1 Context Information: An Overview of Egyptian Industry

The manufacturing sector in Egypt accounts for 17 per cent of the GDP. However, setting aside oil refining, the manufacturing share goes down to 13 per cent of the GDP, barely more than agriculture (12 per cent) (Table 1). From a production viewpoint, Egypt's economy runs on commodities and hydrocarbons services, albeit largely limited to tourism and tourism-related transportation. From a macro-financial stance, the remittances of Egyptians abroad, Suez Canal revenues, foreign aid (mainly from the US and recently from the Gulf), tourism (despite the sector's slowdown) and oil secure significant foreign currency inflows, in spite of the structural unsteadiness of the economy-wide balance in a country that has extremely limited industrial and exporting capacities and heavily relies upon external rents.

Table 1 | Share of the industry sector in GDP, 2016/2017

Sector	million EGP	%
Mining	326,940	10
Manufacturing	436,539	13
Oil refining	134,049	4
Construction	195,097	6
Agriculture	398,539	12
Total domestic production	3,409,503	100

Note: GDP at factor cost, current price.
Source: Central Bank of Egypt.

The Egyptian economy is also largely dominated by state-owned enterprises (Table 2), which amount to a significant share of the domestic production, with the private sector however providing two thirds of the country's overall production. The distribution among sectors indicates that the public sector's share is closely related to extraction.

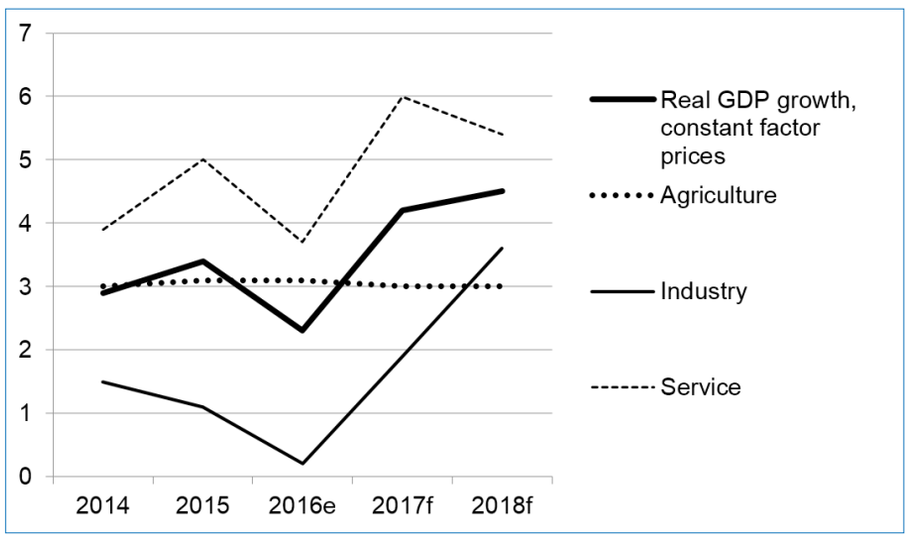
Table 2 | Share of private and public sectors in production (%), 2016/2017

Industry sector	Public	Private
Mining	74	26
Manufacturing	34	26
Construction	10	90
Total domestic production	32	68

Note: GDP at factor cost, current price.
Source: Central Bank of Egypt.

In the last years, Egypt has recovered a high GDP growth. However, even if the industry sector is expected to reach the agriculture level in terms of sectorial growth, it remained a low growing sector over the period 2014–2018 (Figure 1).

Figure 1 | Real GDP growth, at constant market prices, 2014–2018



Note: e = estimation, f = forecast.
Source: World Bank (2017).

Industry contributes to the export of goods, the main products being chemicals (11.3 per cent), textiles (11.2 per cent) and machinery (7.3 per cent) in 2016. However, industrial exports remain below the export share for vegetables and for mineral products (Table 3).

Table 3 | Evolution of the share of economic sectors in Egyptian exports (billion USD), 2011–2016

Sector	2011	2012	2013	2014	2015	2016
01 Live animals	1.8	1.5	1.6	1.8	2	1.8
02 Vegetables	8.7	8.5	9.7	10.8	13.5	12.5
03 Fat and oil	1	0.9	0.9	0.7	0.6	0.7
04 Prepared food	4.2	4.2	4.9	5.4	6.2	6.6
05 Mineral products	31.4	32.7	28.5	24.9	19.8	15.7
06 Chemicals	11.8	12	12.4	11.7	9.7	11.3
07 Plastics and rubber	3.8	4.6	5.6	6.6	6.8	5.6
08 Raw hides and skins; leather	0.5	0.4	0.6	0.7	0.7	0.5
09 Wood, cork, straw	0.1	0.1	0.1	0.3	0.2	0.2
10 Pulp of wood, paper, paper board	1.6	1.6	1.4	1.2	1.2	1.1
11Textiles	10.9	9.9	10.8	11.3	13.5	11.2
12 Footwear, headgear, etc.	0.1	0	0	0	0	0
13 Articles of stone, plaster, cement	2.6	3.8	3.7	3.9	4	3.6
14 Precious stones and metals	5.5	4.5	3.2	2.5	2.9	11.8
15 Base metals	10	8.5	9	7.3	6.9	6.3

16 Machinery, electrical machines	4.5	4.7	4.8	8.2	8.6	7.3
17 Transport equipment	0.3	0.4	0.6	0.5	0.5	0.7
18 Precision equipment	0.2	0.3	0.2	0.2	0.3	0.3
20 Miscellaneous manufactured articles	1	1.2	1.7	2.1	2.6	2.7
Total	31.6	29.4	28.8	26.8	22	22.5

Source: UN Comtrade database, https://comtrade.un.org.

Compared to Comtrade data, the Egyptian Central Bank's data show an even lower participation of manufacturing products in total exports. Table 4 suggests that Egypt mainly exports mineral resources (i.e., petroleum products, phosphate and even gold), while textiles and clothes account for only 7 per cent of the exports.

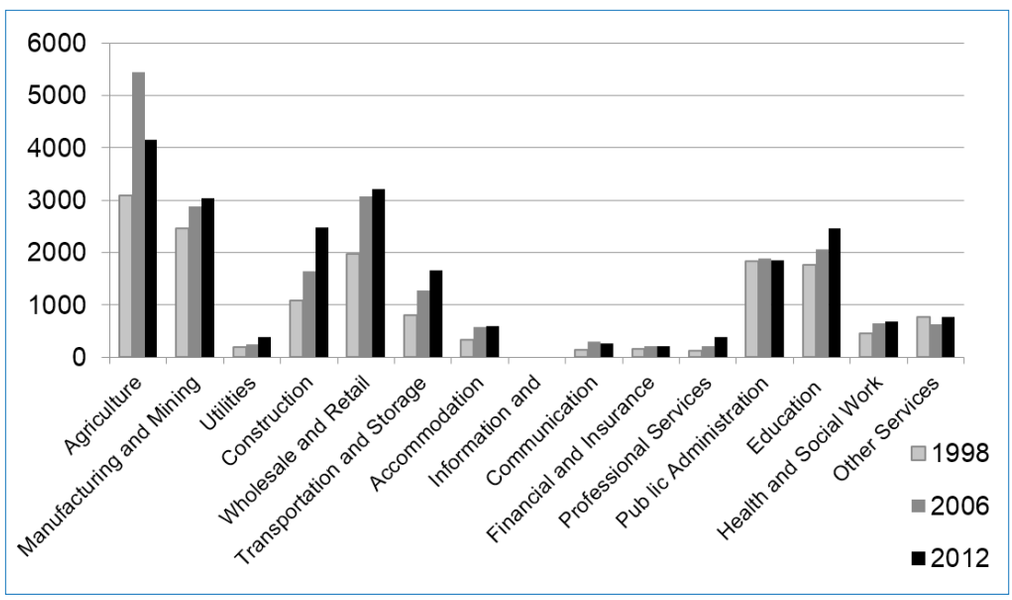
Table 4 | Main exports by commodity and geographical distribution (million USD), 2015/2016

	EU	Other Europe	USA	Arab countries	Asian countries	Other	Total value
Main commodities	3,975.5	992	865.5	2,286.9	1,577.9	1,672.1	11,369.9
Crude oil	1,734.2	163.1	0	112.9	1,016.8	530.9	3,557.9
Petroleum products	960.1	127	263.4	183.6	229.4	352.9	2,116.4
Gold	13.2	250.3	28.6	311.6	0.7	550.3	1,154.7
Textiles	207.3	167.4	214.1	93.5	61.8	16.6	760.7
Phosphate/mineral fertilizers	204	54.9	75.3	132.6	28.8	19.7	515.3
Ready-made clothes	184.9	98.2	226.4	104.8	66.1	10.5	690.9
Fresh/chilled/cooked vegetables	213.3	30.9	28.1	247.1	53.7	62.8	635.9
Ethylene-propylene polymer	102.1	70.1	12	229.9	12.9	18.1	445.1
Household electrical appliances	24.7	18.8	2.6	475.2	75.2	16.2	612.7
Wires and cables	223.3	3.5	8.3	264	9.7	56.2	565
Fresh or dried fruits	83.1	2.6	5.2	82	18.7	36.2	227.8
Cast iron	25.3	5.2	1.5	49.7	4.1	1.7	87.5
Total	6,034.5	1,325.3	1,275.2	5,749.7	2,064.4	2,255.5	1,8704.6

Source: Central Bank of Egypt, UN Comtrade.

Employment rose in the industry and manufacturing sector between 1998 and 2012 but at the expense of a fall in absolute terms of women's employment between 2006 and 2012 (Figures 2, 3). Although the female workforce share in total employment initially increased between 1998 and 2006 (from 11 to 14.6 per cent), it plunged between 2006 and 2012 (from 14.6 to 9.8 per cent). These dynamics may be explained by the growth slowdown experienced by the sector, especially the textile/clothing industry, in view of the increased competition faced. As often in similar circumstances, women are reduced to an adjustment variable and a social damper to restructuration or crisis (Moisseron et al. 2017a).

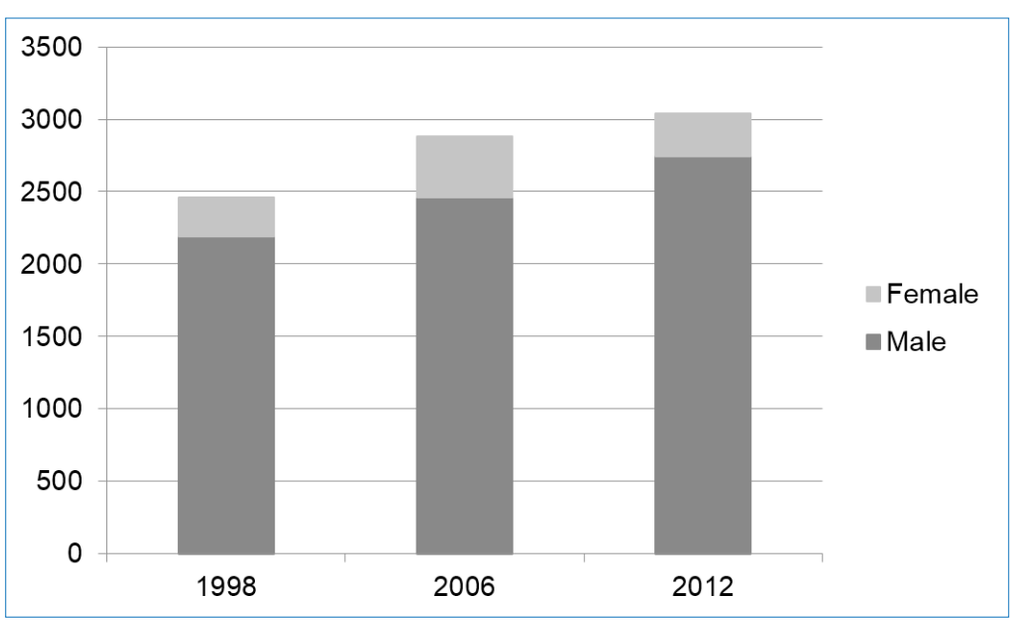
Figure 2 | Employment by sector, 1998, 2006, 2012



Source: Assaad and Krafft (2013).

Gender-related data were virtually inaccessible because mining and manufacturing data are not disaggregated. We cannot draw on available data as the respective shares of the female/ male workforce are probably opposite in these sectors.

Figure 3 | Share of male and female workforce in the industry and manufacturing sector, 1998, 2006, 2012



Source: Assaad and Krafft (2013).

2.2 The Egyptian Industry: Different Stages (1956–2017)

After the independence and until 1974, Egypt coupled import-substitution and nationalization policies (Owen and Pamuk 1998). The first industrialization programme was launched in 1957 and was based on heavy industry, i.e., chemical industries, steel and heavy machinery. The state-driven and public-sector-oriented programme aimed to channel labour and capital into strategic sectors for development, using all resources available to Egyptians. Consequently, foreign direct investments (FDIs) were reduced, the importance of the private sector declined and the state took over financial institutions with a view to building Egypt's economic independence and decreasing dependence on foreign nations. In this regard, the 1956 Suez Canal nationalization and the 1960s wave of nationalization were potent symbols of Egypt's shift towards socialist economic policies (El-Haddad 2015: 79). As a result, sizeable industrial holdings became state-owned along with banks and insurance, transportation, industrial and even hospitality companies. In parallel, the state took on creating new economic sectors in order to supplant imports: arms industry, automotive and consumption goods manufacturing (including TV, radios and washing machines) (Loewe 2013: 20). With most production means being under state control, the private sector decreased sharply (Zaki M. 1999). However, this industrial policy not only induced misallocation of funds, but also strengthened dependency to the new regime, which became over time one of the Egyptian economy's most striking features.

Egypt's 1967 military defeat exposed the inefficiency of many of Nasser's policies, which led to a broad crisis of confidence, further worsening the country's economic performance. Egyptians started to call into question the government's ability to protect the country's borders but also its chosen economic path. Hence, it appeared necessary to develop more balanced economic policies in order to open the country to foreign investments and to export Egyptian goods to support the import of capital assets. Hence, foreign investors were guaranteed against new nationalizations and obtained the right to re-export their profits according to the newly crafted *infitah* (or open-door) policy launched in 1974. In this regard, the textile industry together with tourism were regarded as drivers of growth, which prompted al-Sadat to develop incentives for foreign investments and a policy that allowed for a light liberalization of the trade and payment balances. The state loosened its grip over the private sector but kept the upper hand on major instruments (e.g., the differentiated exchange rate gave advantage to state-owned enterprises). As set out by Djoufelkit-Cottenet (2008: 5), the *infitah* policy "rejected neither socialism nor pan-Arabism: it merely sought to allow private investors to participate in the existing system".

Unfortunately, Egypt was met in 1985 with a strong external debt crisis when oil prices fell rapidly, leading to the adoption of a structural adjustment programme under the auspices of the International Monetary Fund (IMF) and the World Bank to reschedule the debt. Accordingly, the government launched its Economic Reforms and Structural Adjustment Programme in 1991. After a period of stabilization, the reforms aimed to develop the private sector and to liberalize the economy at the expense of the public sector. In this regard, the privatization programme, under Law 203 of 1991, was considered as a success (Louis et al. 2004: 53). A total of 314 enterprises were transferred to 27 public holdings after restructuration, and were later privatized. Discrimination against foreign investors to the advantage of the local market was eliminated, increasing significantly the weight of the private sector (Djoufelkit-Cottenet 2008: 7–8). These positive results were not correlated with macroeconomic performance,

which declined at the end of the 1990s, irrespective of the government's efforts towards establishing an open market. These efforts were not sufficient to gain investors' confidence, which seemed to favour foreign or "safe" investments as progress towards better governance and an institutional environment favourable to the private sector proved slow (Louis et al. 2004: 54).

In 2004, a second round of reforms was launched under the Nazif government, aimed at further accelerating Egypt's integration into the global economy and promoting economic growth through trade liberalization, export diversification and FDIs.

These reforms were based on three elements. First, an ambitious privatization programme: 46 companies were privatized in the telecommunication, textile, chemical, insurance and banking sectors in 2005–2006, compared with only 13 in 2002–2003, respectively amounting to 3 billion US dollars and 80 million US dollars. The reform's second element (2005) consisted in the development of a new taxation social compact, leading to significant reduction of tax rates to broaden the tax base and curb massive fraud. Individual and corporate tax rates decreased respectively from 32 to 20 per cent and from 42 to 20 per cent, before and after the reform. The third strand concerns foreign trade and aimed to decrease the average tariff rate from 14.6 to 9.1 per cent. These reductions accompanied and in some cases accelerated commitments made within the framework of the multiple free trade agreements signed by Egypt.

These reforms were accompanied by significant improvements in two areas: growth and foreign direct investments. According to the Central Agency for Public Mobilization and Statistics (CAPMAS) statistics, the Egyptian economy had gone from a recessionary phase from 2001 to 2003 to positive and accelerating growth in 2007. These encouraging results were unanimously regarded by the business community and by institutional analysts as resulting from the economic policy conducted by the Nazif government. Foreign direct investments were the second pillar of this success story. Starting in 2004, FDIs increased from the previous 600 or 700 million US dollars a year to 4 billion US dollars in 2005, 6 billion in 2006, and beyond 10 billion in 2007, amounting to nearly 10 per cent of Egypt's GDP. Along with the above-mentioned measures, the Cabinet waved obstacles to foreign investments and established the Egyptian Competition Authority in 2004.[2]

Moreover, under the umbrella of the newly merged Ministry of Trade and Industry, the Egyptian Industrial Development Strategy was devised in 2006, showing however major flaws at its inception: exclusion of SMEs, hydrocarbon industries and non-manufacturing companies (Ministry of Trade and Industry 2006). More importantly, the strategy showed no willingness to address widespread poverty and inequality reduction, as shown by Loewe (2013: 33).

The strategy's fields of action comprised: (i) human resources and entrepreneurship, (ii) access to finance, (iii) infrastructure, (iv) innovation and technology, (v) quality insurance, (vi) enterprise competitiveness, (vii) exports, (viii) FDIs and later completed (ix) domestic-market entrepreneurship. In the realm of SMEs, the Parliament adopted a law in 2004 reducing the

2 Egypt's competition law, the Law No. 3 of 2005 on the Protection of Competition and the Prohibition of Monopolistic Practices, was ratified in February 2005. The Egyptian Competition Authority serves as a government advisory body focusing primarily on issues related to the privatization process and how companies stand with respect to the competition law.

minimum capital required for limited liability companies from 50,000 to 1,000 Egyptian pounds (6,500 to 130 euro). In the same year, the Law on the Development of Small Enterprises was adopted, reserving 10 per cent of governmental bids to SMEs and allocating 10 per cent of sold privatized lands. These laws complemented the creation, in the 1980s, of the Social Fund for Development designed to offset the negative impacts of the structural adjustment. The Fund provides SMEs with micro-credit, insurance and communication-oriented funds.

It is difficult to assess the impact of this industrial strategy on employment, gender issues and poverty. The reforms occurred in a time of growth resulting from the increase of Egypt's traditional rents (remittances, oil and Suez Canal fees) prompted by the privatization-induced surge in FDIs. The evolution of traditional rents over the years 2004–2007 yielded a consistent – and exceptional – result over the period: out of a GDP of approximately 100 billion US dollars, the total amount of traditional rents in 2006 was almost 30 billion dollars, about one-third of the GDP (against 11.9 billion in 2003, or 16 per cent of GDP) (Moisseron and Clément 2007: 113–4).

In spite of Nazif's reforms, state-owned enterprises still account for more than 30 per cent of the industrial added value (Loewe 2013: 16–7). The military's control covers a wide range of industrial activities escaping from market competition (Abdel Ghafar 2018: 17) and the private sector remains mainly composed of family businesses in both formal and informal sectors, as well as large public and foreign companies. Overall, the different reforms did not trigger structural changes in governance; the Egyptian system still seems to be defined by crony capitalism and economic "insecurity" (Chekir and Diwan 2014: 209).

According to Loewe (2013: 46–7), the structural effects of Nazif's policies were limited for five reasons: (i) the strategy did not effectively compensate for market failures; (ii) the policies had adverse effects because they provided very generous financial support; (iii) the policies addressed only a small fraction of the structural problems; (iv) the policies were too focused on large and well-established companies; and finally, (v) the reforms failed to alter the private sector's risk aversion, the lack of innovation incentives, industrial sector fragmentation, the lack of quality training and the general deficit of economic rule of law.

The liberalization reforms launched by the Nazif government continued in spite of the 2008 crisis; however, they were largely hampered by the global context resulting in a need for increased subsidization (of basic commodities including oil). The governmental action, being no longer sustained by FDIs, reached a limit. In parallel, the Nazif reforms' lack of tangible results for Egyptians, along with the rise of Gamal al-Mubarak and his fellow businessmen, drew criticism among the populace and military circles.

After the 2011 uprising, Egypt's economy suffered severely from the political turmoil and its consequences (Abdou and Zaazou 2013). The successive governments were faced with conflicting domestic and external demands: restoring the country's stability and the people's confidence in the institutions, responding to social demands formulated during the revolution and stabilizing the budget balance.

In an effort to respond to these demands, Abdel Fattah el-Sisi engaged in "grandiose mega-projects", with the military being the primary investor (Hessler 2017). However, Sisi's strategy to reinforce both the military and the "market economy" was limited by the lack of foreign investment, which prompted the government to accept the IMF's more stringent conditions

for accessing a three-year loan (10 billion euro) in 2016. The need for a diversified economy had long been identified and was tentatively addressed by Sisi's predecessors, from Nasser's statism (1952–1960) to Sadat's open-door policy (1960–1980) and Mubarak's liberalization (1980–2010) (Loewe 2013). Sisi's approach borrowed from all of these in an effort to combine liberalization and major public works.

However, these efforts were largely swayed by the floatation of the Egyptian pound initiated by the country's Central Bank in November 2016.[3] The floatation aimed to reflect the currency's FX value already emulated on the black market and to tackle a trade deficit that racked up 42.64 billion US dollars in 2016 (Knecht 2017). The devaluation, which preconditioned the release of the IMF loan, came along with a sharp cut in state subsidies (e.g., food, fuel, electricity). After the unpegging (peg being valued at 1 US dollar/8.88 Egyptian pounds), the Egyptian pound's value stabilized at around 18 Egyptian pounds. Early estimations targeted stabilization at 1 US dollar/14 Egyptian pounds; however, the soar in import prices led to an inflation that overreacted to the under-evaluated peg, making Egypt's lower economic tier mainly bear the brunt of the devaluation cost (Noureldin 2017).

But due to cutbacks in food and energy subsidies, not only low-income groups but also middle-income groups have suffered from the devaluation and from inflation. Devaluation differently affects tradable and non-tradable sectors (Shokry 2017) and seems to increase the value of exports instead of the quantity of exports (Zaki C. et al. 2017). In this regard, this policy approaches "macroeconomic stability" as "the overriding goal to which all other goals, job creation and income protection, are subordinated" (Zaki E. 2018: 66).

Despite its mixed results on exports, the Egyptian government has devised policy tools to stimulate them (including SMEs' exports) and to reduce imports. For instance, the May 2017 Industrial Permit Act allows for export procedures to be processed within six days (formerly nine days), while imports are being processed within 21 days (formerly also nine days). Other reforms target industrial development and export promotion through the new investment law (Ernst & Young 2017), the industrial development plan and the export development plan formulated by the Ministry of Industry and Trade. In the same vein, the Trade Ministry allocated large swaths of land for industrial purposes. In the long term, the government has adopted a 2030 development strategy, Egypt Vision 2030, including promotion of exports and industrial development, following the Industry and Trade Development Strategy (ITDS) for the period 2016–2020.

2.3 Policies Related to Industry under Sisi

2.3.1 An Assessment by Sector

Textile sector: The flotation winner

Textiles and clothing are one of the most significant manufacturing sectors in Egypt. They account for 3 per cent of GDP and about 30 per cent of the total manufacturing workforce.

3 "Egypt Allows Its Currency to Float Freely", in *BBC News*, 3 November 2016, https://www.bbc.com/news/business-37857468.

In 2016, there were 7,413 companies in the textiles and clothing industry, with another 196 operating in free zones (WTO 2018: 122). The sector is attractive because of its proximity to European markets, and because the clothing sub-sector is a low-capital and high-labour-intensive industry. The public sector is very important, accounting for 90 per cent of cotton spinning, 60 per cent of fabric production and 30 per cent of apparel production in Egypt. The textile industry contributes one-quarter of Egypt's non-oil export proceeds.

> The Ministry of Trade and Industry [...] points to textiles as one of the industries helping to shift Egypt's trade balance in 2017, with exports increasing by around 12% and imports declining by 59%. Tarek Kabil, minister of trade and industry, noted that "in 2017 the textiles industry contributed 3% to GDP, employed about one-third of the industrial labour force and provided annual exports worth around $2.6bn, accounting for 15% of all non-petroleum exports. (Oxford Business Group 2018: 134)

The rising price of local cotton drove the domestic textile demand down and prompted the shutting down of many textile factories.[4] Hence, the GDP devaluation aimed at stimulating exports that would, in turn, trigger a gradual boom in the textile industry – as stated by Readymade Garments Export Council Chairman Mohamed Kassem (Werr 2016). This expected gradual boom was also intended to attract and build upon new investments.

In this context, the Egyptian government devised a policy aiming at reinforcing current industrial infrastructures with the allocation of large swaths of land for industrial purposes and financial support through industrial projects focusing on textiles, food-processing and minerals.[5] The government is also intensively seeking FDIs to tame US dollars shortages and stimulate exports. In this context, Egypt conceded the creation of a French Economic Zone in Alexandria that is set to benefit five French companies operating in textile and food processing and targeting the nearby Asian market.[6]

However, the main investments are sought outside EU countries. China is poised to intensify its investments in Egypt through its Belt and Road Initiative (Xinhua 2017) and notably in the Suez Canal Economic Zone, where Chinese companies are expected to plant cotton and set up manufacturing facilities for a total investment of 1.35 billion US dollars (Shondong Ruyi Technology and Shenyang Yuanda Enterprise Group).[7] China's massive investment strategy prompted trade and industry minister Tarek Kabil to boast about the edging out of the European Union, and China's new status as the "fastest growing investment partner" (Knecht 2017). China is not the only country to have set its sights on Egypt. India's MB Textiles is also announced to invest about 100 million US dollars to set up a new textile production facility. For CI Capital macroeconomics analyst Noaman Khaled, the textile industry is probably the only sector that directly benefits from the Egyptian pound devaluation (El Sharnoubi 2017).

4 "Alexandria Spinning & Weaving Company Shuts Down Two Factories", in *Enterprise*, 31 October 2016, https://enterprise.press/?p=14577.
5 "Ismailia Approves 17 Industrial Projects", in *Enterprise*, 10 May 2016, https://enterprise.press/?p=5715.
6 "French Economic Zone Will Be Announced in June", in *Enterprise*, 19 April 2016, https://enterprise.press/?p=4941.
7 "Chinese Companies to Invest Heavily in Textiles Industry in the SCZone", in *Enterprise*, 3 April 2017, https://enterprise.press/?p=22227; "Two Chinese Companies Planning to Establish Industrial Complexes with Combined Investment Cost of USD 1.35 bn", in *Enterprise*, 14 May 2017, https://enterprise.press/?p=24428.

Yet, the sector's improvement does not seem to be benefiting the lower tier of workers. In February 2017, over 2,000 Misr Spinning and Weaving Company workers (state-owned) went on a partial strike to demand the payment of delayed bonuses and a rise in the daily food allowance in the face of mounting inflation.[8] They were answered with the arrest of five strike leaders in the context of an unbroken crackdown on collective actions. This is only one of the numerous workers' protests in the sector, which indeed is used to recurrent strikes and protests. A survey published in 2011 showed the mains reasons as: low wages (10 per cent); working conditions (10 per cent); working 9 hours instead of 8 per day (12 per cent); nonpayment during firm's inactivity (17 per cent); lack of lunch allowance (17 per cent); low incentives and lack of claims to profit (17 per cent); and early retirement (17 per cent) (Al-Ayouti 2011: 22).

In the same vein, China's massive investment in the textile sector, from cotton plants to manufacturing, is likely to worsen the cotton workers' conditions. In 2014, the Trade Sustainability Impact Assessment in support of negotiations of a DCFTA between the EU and Egypt warned the Commission against child labour. It was estimated that 1 million children work an average of 11 hours a day, seven days a week under "40-degree summer heat" (ECORYS 2014: 49). Informal and irregular employment has also increased. This situation extends to nearly 2 million female farmers in Egypt working in cotton harvesting, according to the Arab Trade Union Confederation. Women account for 42.8 per cent of the agricultural force (according to 2015 data) and yet do not fall under state protection, which makes them extremely vulnerable elements within the workforce (Zakaria 2016).

Food-processing: All eyes on the outside

The Egyptian pound floatation and the subsequent drop in consumer purchasing power are hitting the food-processing industry, as expressed by Juhayna CEO Saif Thabet. The dairy product company registered a 20 per cent drop in sales in 2017, and a return to previous levels is not expected to happen before 2019.[9] Rising production costs are also dragging down the food-processing business, as expressed by the Union of Egyptian Investors Associations.[10] Despite the grim business climate, Al Mona Misr, a company operating in field of oil/seed manufacturing, opened a food-processing branch worth 100 million Egyptian pound in Borg el Arab. However, the output is not intended for the domestic market.[11]

Oil and gas

The Egyptian government has multiplied negotiations and agreements to attract FDIs and exploration capacity, as shown by the Egypt–France ongoing discussions (Ministry of Petroleum 2018) or the exploration agreement signed in 2017 between Egypt and Apex International/ Royal Dutch Shell.[12]

8 "Mahalla Textile Workers Temporarily Call Off Strike, 5 Strike Leaders Face Disciplinary Hearings", in *Mada Masr*, 9 February 2017, https://madamasr.com/en/?p=233297.
9 "Dairy Sales Down 20% This Year", in *Enterprise*, 16 November 2017, https://enterprise.press/?p=33809.
10 "Manufacturers Looking to Press Gov't Once Again on Lowering Gas Prices", in *Enterprise*, 27 August 2017, https://enterprise.press/?p=29353.
11 "Al Mona Misr Launched Food Processing Company, to Export All Output", in *Enterprise*, 16 October 2017, https://enterprise.press/?p=31864.
12 "Egypt Signs Oil and Gas Exploration Deals with Shell, Apex", in *Reuters*, 29 August, https://reut.rs/2glGksq.

Meanwhile, the government seems to "support" the oil sector through a toughening of workers' conditions and a general crackdown on independent unions. In January 2017, 19 workers were prosecuted for striking at a Suez oil factory and were later acquitted. The strike broke out against the backdrop of unfair bonus redistribution, the arrest of two members of an independent workers union working at the International Foodstuffs Co. Egypt (IFFCO), and the repealing by ETUF – the state-backed Trade Union Federation – of two agreements between IFFCO and Suez oil products (HRW 2017).

In parallel, Egypt has bet on gas exploration and notably on Zohr – deemed the largest gas field in the Mediterranean, discovered in 2015. The discovery prompted the government to envision the country as the new Middle Eastern energy hub. These ambitions have been nuanced by recent discoveries that consider the gas field adjacent to Zohr not viable as a standalone project (Hazou 2017). These ambitions are also put in question by the ascent of the Southern Gas Corridor and growing instability in the Sinai (Zeynalova 2017). Despite uncertainties surrounding the gas sector, the World Bank's International Finance Corporation pledged 100 million US dollars to Egyptian oil and gas projects (along with a 635 million US dollar funding of 11 solar power plants).[13] Egypt is also providing international creditors with the long-awaited Natural Gas Act that would "open the door for the private sector to import, produce, and distribute gas, turning the state into a regulator of the national gas grid".[14] In other words, gas imports would be directly dealt with by licensed companies. The Oil Ministry announced that the natural gas market would be fully deregulated by 2022.[15]

However, the Natural Gas Act will benefit conglomerates whose leverage on international markets allows for competitive pricing. These concerns were voiced through a delegation from the Union of Egyptian Investors Association (UEIA) on November 2017. In a meeting with the House of Representatives' Industry Committee, the UEIA asked for direct governmental intervention in offsetting the consequences of flotation as a "number of factories [...] fell behind on bill payments, which they say they are unable to make". However, according to the Association, as previously "hinted" it is "unlikely the Ismail Cabinet would follow through on the decision".[16]

Automotive industry: Protectionism and liberalization

Egypt's automotive industry is one of the largest in Africa. It employs 75,000 workers and produces around 100,000 vehicles a year (Oxford Business Group 2018: 128). Through the Free Trade Agreement (FTA) with the EU, Egypt has reduced import tax on European vehicles by 10 per cent every year since 2009. This means that European cars will enter Egypt tariff-free by 2019, which will have an impact on local producers and assemblers. The April 2015 decision of Mercedes Benz to close down its local assembly plants was interpreted as a negative signal for the future, putting in question the relevance of producing cars in Egypt in the longer term.

13 "IFC Pledges USD 100 mn to Oil and Gas Projects in Egypt", in *Enterprise*, 30 August 2017, https://enterprise.press/?p=29567.
14 "Natural Gas Act Executive Regs Coming in Days; Talks With Aramco on Refining in Egypt Are Underway", in *Enterprise*, 15 November 2017, https://enterprise.press/?p=33729.
15 "Natural Gas Market to Be Fully Deregulated by 2022", in *Enterprise*, 16 November 2017, https://enterprise.press/?p=33795.
16 "Investors to Discuss Solution for Rising Natural Gas Bills for Industry with MPs on Tuesday", in *Enterprise*, 19 November 2017, https://enterprise.press/?p=33898.

The Egyptian pound flotation had a direct impact on imports; customs duties rose overnight in November 2016 from 52 to 66 per cent as taxes are priced in US dollars.[17] Ahead of the flotation, the Egyptian Automobile Manufacturers Association was devising an export-stimulation policy to raise the portion of locally sourced components in car manufacturing from 45 to 60 per cent.[18] This was partially balanced by the Egypt–Mercosur FTA, which was finally ratified on 23 May 2017.[19] The Egypt–Mercosur FTA allows for a 60 per cent lifting on customs and may in itself put an end to the automobile sector, according to Deputy President of the Federation of Egyptian Industry's transport division, Samir Allam.[20] In the absence of a comprehensive strategy, Mercosur's "manufacturing giants" may just swallow up Egypt's production of automotive spare parts. Despite the absorption risk, Egyptian Automobile Manufacturers Association CEO Hussein Soliman favours the Egypt–Mercosur FTA over its EU equivalent, considering that it "didn't push down the prices of European cars enough to make them significantly more attractive than their locally assembled counterparts".[21]

Pharmaceutical products

Up to the 1980s, as far as pharmaceutical products are concerned, Egypt was able to meet over 80 per cent of its population's needs. As part of the free officers' policy of curbing imports, margins of foreign products were cut and public pharmaceutical companies were set up, resulting in a 40 per cent increase in domestic supply between 1952 and 1963 (Gereffi 1983: 232). During the *infitah* and after, the government's strategy was twofold: setting up joint ventures with international firms to take advantage from their expertise, and regulating the country's production through pricing, nationalization and quality enhancement (Gereffi 1983: 233). However, the pricing scheme has repeatedly loosened since the 2000s (Hamama 2017).

Mubarak's era marked a growing privatization of the Egyptian pharmaceutical sector that leaves the public sector only able to cover 4 per cent of domestic demand, according to Mona Mina, secretary general of the Egyptian Medical Syndicate. Mina considers that the sector's privatization benefited first the "giant pharmaceutical monopolies", which cover 60 per cent of the market against 36 per cent for domestic companies (Hamama 2017). Despite the sector's grim situation, Egypt remains an exporter in the region.

However, according to Ahmed al-Ezaby, director of the Federation of Egyptian Industries Pharmaceutical Division, the local industry's main flaw is its heavy reliance on imported raw materials and bulk active ingredients, which caused production costs to skyrocket (by on average 50 per cent) after the floatation (Sanchez 2016). The country's rigid policy on pricing also led to an immediate shortage of imported medicines.[22] To stabilize the situation,

17 "Customs on Passenger Cars Increased to 66% from 52% on Second Day of Float", in *Enterprise*, 6 November 2016, https://enterprise.press/?p=14917.
18 "EAMA and Trade Ministry Discuss Automotive Directive Executive Regulations", in *Enterprise*, 27 October 2016, https://enterprise.press/?p=14474.
19 "Argentina Approves Egypt-Mercosur Free Trade Agreement", in *Egypt Today*, 23 May 2017, https://www.egypttoday.com/Article/3/5596/Argentina-approves-Egypt-Mercosur-Free-Trade-Agreement.
20 "Egypt-Mercosur FTA Will Hamper Domestic Production of Auto Spare Parts, Says FEI's Transport Division", in *Enterprise*, 10 September 2017, https://enterprise.press/?p=29885.
21 Ibid.
22 "Panic over EGP Float Causes Confusion on Insulin Supplies", in *Enterprise*, 8 November 2016, https://enterprise.press/?p=15036.

the government took on short- and mid-term measures such as (a) the direct purchase of medicines (20–50 per cent more costly) and supplying public hospitals using the national health insurance scheme;[23] (b) the setting up of a military pharmaceutical company (the Egyptian National Company for Pharmaceuticals) to revitalize local production;[24] and (c) efforts to attract foreign pharmaceutical companies to the Suez Canal Economic Zone.[25]

Cement: A (short-lived) revival?

The cement sector has been kept afloat through Sisi's "mega-projects" policy and a state-sponsored compensation system under the Contractors Compensation Act that offset the loss prompted by the Egyptian pound floatation in 2017.[26] These mega-projects have involved road construction connecting inter alia delta cities and Cairo to Ain-Sokhna, Ismailia or Suez (Attalah and Hamama 2016).

Sisi's policies have also largely benefited the private cement sector as it grew by 17 per cent between 2016 and 2017. This demand-oriented policy has prompted a 20 million ton surge in cement production compared to 2010 (HSBC Global 2016). However, the cement industry has witnessed an important decrease in the state's natural gas allotment and has moved on to favour imported coal because of the rise in the cost of natural gas after the energy subsidy cutback (HSBC Global 2016). As reported by the Bank Information Center, the sector's growing reliance on coal will most likely affect Egypt's already grim environmental record (Mainhardt 2017, Charbel 2017). In parallel, the IMF's insistence on raising interest rates to compensate for the devaluation – and hence ensure better returns for international creditors – prompted the Central Bank of Egypt to raise its own rates (Alsharif 2016). This situation is likely to negatively affect the construction sector and in turn the cement industry. Moreover, workers in the sector have mobilized against its monopolization by a few private companies, protesting against privatization policies "which led to the emergence of monopolies in the sectors of steel and cement for the benefit of business tycoons" and "destroyed the strategic industries, dismissed thousands of workers under the guise of early retirement, reduced wages, and put workers at the investors' mercy" (ECESR 2014).

Renewable energy

The government is seeking expansion in the renewable energy sector, notably through FDI and technology transfer. The New and Renewable Energy Authority has allocated large areas of land to solar and wind development plants. Through its feed-in tariff system, the Authority sought to fully develop solar and wind projects. However, in August 2016, negotiations with foreign

23 "Prices Rise 20-50% on Meds Health Ministry Is Purchasing for Public Hospitals", in *Enterprise*, 11 May 2017, https://enterprise.press/?p=24365.
24 "Military Production Minister: We Want to Expand Our Civilian Business Partnerships", in Mada Masr, 24 January 2017, https://madamasr.com/en/?p=232039.
25 "SCZone Is Set to Establish the Largest Pharmaceutical Industries Area in Middle East", in *Egypt Independent*, 11 March 2017, https://www.egyptindependent.com/?p=2477104. The Zone may also benefit foreign pharmaceutical companies, as revealed by SCZone chairman Ahmed Darwish. See State Information Service, *US Delegation to Visit Egypt for Talks on Establishing Pharmaceutical Factory in SCZone*, 4 March 2017, http://www.sis.gov.eg/Story/108096?lang=en-us.
26 "Contractors Compensation Rates Published in Official Gazette", in *Enterprise*, 15 November 2017, https://enterprise.press/?p=33752.

investors almost came to a halt as the government refused the jurisdiction of international arbitration tribunals[27] (but did allow disputes to be submitted to arbitration outside the country) (EIU 2016). Despite the pound floatation, the Egyptian government held its ground and refused to increase the feed-in tariff (FiT) as pledged by applicants.[28] The companies FAS Energy, Infinite and Elf made the cut for phase one of the FiT.[29] In parallel, the International Finance Corporation and the African Development Bank have financially supported the FiT where the European Bank for Reconstruction and Development (ERBD) directly funded three solar plants as part of its 500 million US dollar renewable energy framework. The Union for the Mediterranean's Energy and Climate Business Forum were also an opportunity for ERBD and EDF to partner with Elsewedy Electric for the building of two solar plants worth 150 million US dollars.[30]

2.3.2 The Industry and Trade Development Strategy (2016–20)

In 2016, the Ministry of Trade and Industry launched the Industry and Trade Development Strategy (ITDS) for the 2016–20 period. In the document, industrial development is targeted as the engine for sustainable and inclusive economic development in Egypt. The ITDS sets quantitative goals: (a) increasing the annual industrial growth rate by 8 per cent; (b) increasing the contribution rate of manufacturing to GDP to 18–21 per cent; (c) increasing the contribution to GDP of micro, small and medium-sized enterprise sectors; (d) increasing the growth rate of exports to 10 per cent annually; and (e) providing three million productive job opportunities (see Table 5).

Table 5 | Synthetic presentation of the ITDS

Logical results framework	**Indicator**
Impact: Industrialization to become a driver for sustainable inclusive development	• Increase in the contribution of manufacturing industries in the GDP at national and governorates level. • Contribution of manufacturing industries to job creation.
Outcomes: Increase in value-added industries	• Increase rate of added value in the industrial sector. • Growth rate of added value in industrial sector.
Direct results	**Indicator**
Improve the industrial business environment	• Average time spent to issue industrial license. • Average time spent to establish industrial companies. • Average cost for establishing industrial companies. • Rate of using the one stop shop to issue legal approvals.
Availability of enclosed industrial lands	• Area of available lands for industrial use on a national and governorates level, and in industrial clusters. • Average of square meter cost of enclosed lands in governorates and each industrial cluster.

27 "Investors Terminate Renewable Energy Projects Following Dispute over Feed-in Tariff", in *Mada Masr*, 11 August 2016, https://madamasr.com/en/?p=219860.
28 "Feed-in Tariff to Remain Unchanged, Electricity Ministry to Hold Talks With Investors to Discuss Funding Concerns", in *Enterprise*, 20 February 2017, https://enterprise.press/?p=19988.
29 "FAS Energy, Infinite, Elf Are the Companies That Qualified for the FiT Phase One", in *Enterprise*, 8 March 2017, https://enterprise.press/?p=20902.
30 "Egypt Getting USD 1.8 bn in Solar Power Investment", in *Enterprise*, 17 October 2017, https://enterprise.press/?p=32087.

Availability of industrial clusters to deepen the industrial sector	• Number of industrial clusters in each governorate. • Number of industrial incubators in each governorate.
Improving industrial competitiveness	• Average rate of money spent on research and development from the total cost of the project in each industry. • Growth rate of the funded research and development of each industry.
Availability of information on required investments and available incentive packages on governorates level for local and foreign investors	• Number of visits to the interactive investment map on the Government portal. • Number of visits and inquiries from site's investors and governmental entities.
Availability of specific and effective mechanism to assist struggling factories	• Number of industrial projects that were aided to overcome obstacles. • Amount of loans and credit facilities offered to industrial projects with obstacles.
Availability of green economic pillars to ensure sustainable development	• Number of industries supporting the green economy. • Percentage of supporting-green-economy factories contribution to the total number of factories at government and governorates level.

Source: Ministry of Trade and Industry (2017: 40–1).

The foreseen policies to reach the objectives consist of:

> Reviewing the legislations regulating industrial lands allocation and licenses; mainstreaming the procedures of obtaining industrial licenses by revisiting, re-engineering and automating such processes; ensuring good governance of entities concerned with industrial development, specification, industrial quality and control; restructuring entities […] to guarantee the integration and avoid the contradiction and overlapping; to enhance the efficiency and effectiveness of these institutions through specified performance indicators subject to monitoring and evaluation. (Ministry of Trade and Industry 2017: 37)

More than a strategy, the ITDS bears resemblance to a roadmap with ambitious targets but lacks a sturdy apparatus to meet the goals. Some of them – for example the goal of reaching a manufacturing contribution of 18–21 per cent to GDP in 2020 – seem to be out of the realm of possibility. The question of financing the programme is also on the table because of the budget constraints and the already engaged programmes in other sectors.

2.3.3 Vision 2030

It should also be noted that the ITDS strategy became a part of a more ambitious programme, the Vision 2030, which includes all sectors of the economy.[31] The 2030 vision is the general framework of the economic ambitions of the current Egyptian government. The vision is based on four pillars: (a) promote a "balanced, knowledge-based, competitive, diversified, market economy"; (b) develop an energy sector that meets sustainable development requirements;

31 See the dedicated website: http://sdsegypt2030.com/?lang=en.

(c) promote knowledge, innovation and scientific research; and (d) favour transparency and efficient institutions (Ministry of Planning 2016a: 12; see Ministry of Planning 2016b for more details).

For the first, economic, pillar, the objectives are defined as reported in Table 6.

Table 6 | Objectives of the economic pillar of Vision 2030

Objective	Definition
Stability of the macroeconomic environment	Decrease the public debt-to-GDP ratio, reduce the percentage of total deficit to GDP, and maintain price stability.
Achieve sustainable inclusive growth	Raise the economic growth rate, achieve balanced regional growth, increase the participation of women and the disabled in the labour force, and achieve an economy able to reduce poverty rates.
Increase competitiveness, diversification, and knowledge	Increase the competitiveness of the Egyptian economy internationally, raise the contribution of exports to economic growth, increase the contribution of services (especially productive services) to GDP, in alignment with the governmental strategy and international practices that consider industry and services as the main engine of economic growth.
Maximize the value added	Increase the local content in the manufacturing sector and decrease the trade balance deficit.
Become an active player in the global economy capable of adjusting to international developments	Join the Organization for Economic Co-operation and Development (OECD) in 10 years and become one of the newly industrialized countries within 5 years.
Create decent and productive job opportunities	Decrease the unemployment rate and multiply the productivity rates.
Increase GDP per capita to reach the level of the high-middle-income countries' GDP per capita	Improve the standard of living for all citizens.
Integrate the informal sector into the economy	Integrate the informal sector into the economy and reduce informal transactions through the development of integration mechanisms, providing incentives and eliminating barriers.

Source: Ministry of Planning 2016b: 18–9 [Economic Development Pillar]).

All of these objectives are praiseworthy, but they could fit with any country at any time. It is hard to find something specific to Egypt in the objectives. A series of 30 quantitative indicators accompany the objectives. The first nine are related to the macro-economy and poverty: GDP, GDP per capita, inflation, public debt, budget deficit, poverty line. The others concern competitiveness and ease of doing business. Only two indicators among 30 are directly related to industry: share of value-added manufacturing in GDP and share of high-technology exports in total exports. Moreover, as supported by the Egyptian Center for Economic and Social Rights (ECESR 2016: 246), some of the 2030 targets seem unrealistic. For example: 12 per cent growth; GDP per capita tripling over 14 years to 10,000 US dollars; no population under the extreme

poverty line in 2030; an unemployment rate of 5 per cent; a female labour force participation of 35 per cent (from 23 per cent in 2018), etc. In addition, the same organization notes that the numerical targets are not accompanied by clear strategies and feasibility studies, reflecting "the lack of seriousness on the part of the Egyptian government in reaching them" (ECESR 2016: 245). Therefore, on the question of how to reach such targets, we find few indications in the document. There is no strategy for the different sectors, but what the document calls "challenges" (see Box 1).

Box 1 | Challenges of the Economic Pillar in Vision 2030

• Correct the market imbalance, support fair competition, and provide additional resources to support industry and other sectors.
• Continue the export orientation and openness to the world, through the achievement of greater coherence between industry and the growth of exports and convert part of trade activities to industrial activities.
• Combine the horizontal policies that affect all industrial activities and the development of sectorial strategies to achieve industrial development objectives.
• Achieve regional development through industrial strategies at the regional level.
• Protect the environment as one of the fundamental objectives of industrial policy.
• Rationalize energy use and take advantage of renewable energy and recycling wastes.
• Increase the value added and the shift towards knowledge-based products.
• Achieve geographically balanced industrial development.
• Support high knowledge and technological content industries.
• Deepen the domestic component in industrial goods and move up the value chain.
• Achieve coherence and integration among industrial and free zones, and domestic, regional, and global value chains.
• Encourage investment in industry and facilitate establishment by streamlining procedures, especially for land availability and issuing licenses.
• Review and develop investment incentives, encourage domestic products, and support exports.
• Complete the road network and infrastructure in the industrial zones.
• Expand technological centres services to cover the producers and exporters of all categories and various community needs.
• Promote the adoption of typical rates of spoilage and wastage rates by industrial control authority in coordination with the concerned authorities and update it continuously to remove obstacles to take advantage of special regulations.
• Review companies' share in social insurance to encourage employers to increase the number of insured employees.

Source: Ministry of Planning (2016b: 41–2 [Economic Development Pillar]).

If we go into the details of the strategy, it is difficult to understand the priorities. As with the ITDS, it more resembles a roadmap supported by an idealistic projection for the future. A steady detailed outline is lacking, and would need complementary action plans to become consistent and achievable.

Moreover, the Vision 2030 plays a role to galvanize the stakeholders into action. Motivating and invigorating investors – and the society at large – matters for the Egyptian government, as justified by the unstable path it has travelled. The introduction to the vision sets the tone: "Inspired by the ancient Egyptian Civilization" the vision "represents a foothold on the way towards inclusive development" (Ministry of Planning 2016a: 2). It overuses a timeless style, where the simple present tense describes the future: "By 2030, the Egyptian economy is a balanced, knowledge-based, competitive, diversified, market economy, characterized by a stable macroeconomic environment, capable of achieving sustainable inclusive growth" (Ministry of Planning 2016a: 12). The linguistic register is more related to prophecy than prospective. It is then useless to demonstrate or explicate the strategy, as what is said will be, by virtue of the verb. This prophetic narrative is broadcast by the officials and relayed by the press:

> The new Egypt will possess a competitive, balanced and diversified economy, dependent on innovation and knowledge, based on justice, social integrity and participation, characterized by a balanced and diversified ecological collaboration system, investing the ingenuity of place and humans to achieve sustainable development and to improve Egyptians' life quality.[32]

We have found very few critics of the Vision. This is not surprising in the present context. Any critique by stakeholders may be perceived in the present Egyptian context as a betrayal contradicting the Vision's performative function and preventing it from happening. The Egyptian Center for Economic and Social Rights (ECESR 2017) notes that "[i]t lacks a detailed roadmap to achieve the goals it sets out, particularly on reducing poverty and unemployment, and thus would have limited impact in terms of addressing structural development challenges in the country". It also denounces

> the lack of clarity in implementation mechanisms and the lack of consistency among the goals, despite the overarching strategy. The indicators used to measure the goals reflect the Government's continuation of the neoliberal approach, which is contingent on the development of the private sector and dependent on it to finance the development goals. (ECESR 2016: 245)

The Center for American Progress is cautious about the Vision: "There is little evidence that Egypt's glossy 'Vision 2030' report detailing its development strategy is guiding Egyptian government policy" (Benaim 2017). A critical Egyptian media outlet, *Mada Masr*, gives another reason for the 2030 Vision: "Egypt, like most countries, has a history of producing and discarding grand development plans as administrations and economic circumstances change. Perhaps there's no need for Vision 2030 to be any more than it is: a vague but ambitious wish list" (Esterman 2016).

Despite its weaknesses, the Vision 2030 is used as a framework to portray guidelines for a global strategy that the EU can be in line with. The Vision is indeed mentioned in the successive EU Single Support Framework reports.

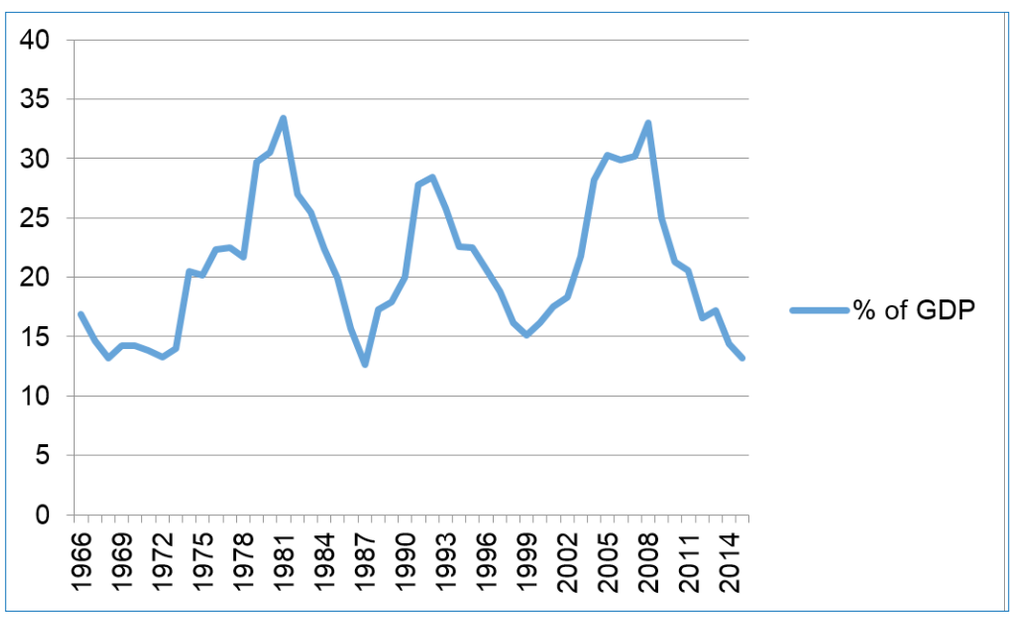
32 See the Vision 2030 official website: http://sdsegypt2030.com/?lang=en.

3. An Assessment of European Policies

3.1 EU–Egypt Trade Relations

It seems impossible to analyse Egyptian trade with Europe separately from the forces which drive Egyptian trade in general. Indeed, the external trade of Egypt follows an erratic trend or more precisely long waves of quasi-sinusoidal variations. Since 2008, Egypt has suffered from a decreasing share of exports in GDP (Figure 4).

Figure 4 | Evolution of Egyptian exports (% of GDP), 1996–2014

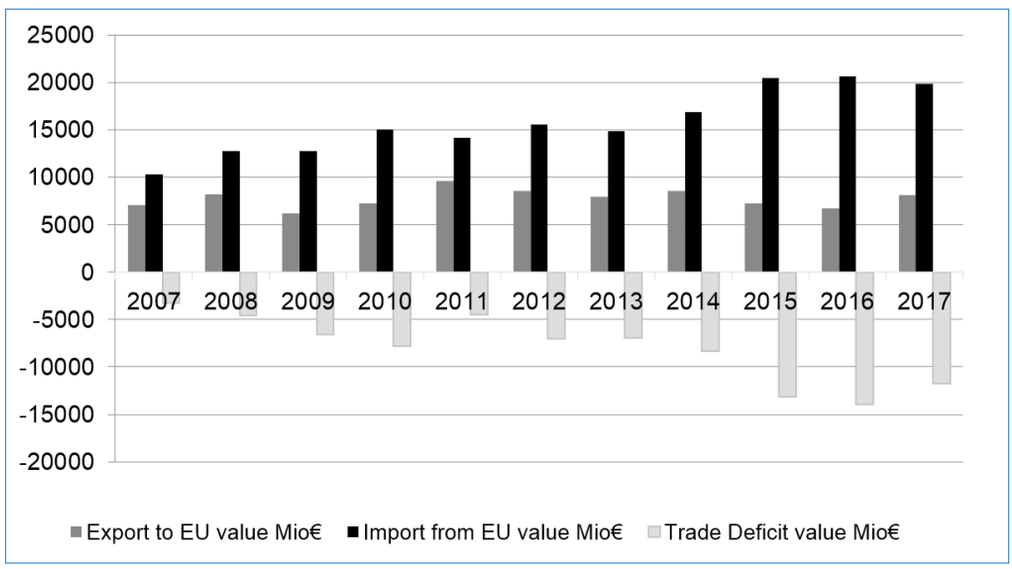


Source: Central Bank of Egypt.

A difficulty unfolds in documenting the causality between trade agreements and trade outcomes. Increases of absolute trade with Europe are often seen as a "good effect" of the Egypt–EU Agreement. According to the EU data, trade between Egypt and the EU has more than doubled since the Association Agreement entered into force in 2004 (from 11.8 billion euro in to 27.9 billion euro in 2017).[33] But underlying this statement is the related fact that the free trade agreement between the EU and Egypt has increased the deficit of the Egyptian trade balance. Around 3.3 billion euro in 2003, the trade deficit of Egypt with Europe doubled in 2013 and doubled once again in 2016. The additional deficit during the implementation period of the EU–Egypt Association Agreement is about 9 billion euro (Figure 5). The question thus arises whether the success is for Europe or for Egypt, especially considering the industrial sector as the deficit is mainly due to unbalanced trade in manufactured products.

33 See the European Commission website: *Trade: Egypt*, last update 24 May 2018, https://europa.eu/!RQ63py.

Figure 5 | Egyptian exports, imports and trade deficit with the EU, 2003–2017



Source: European Commission (2018: 3).

As shown in Table 7, Egypt's industrial exports into the EU market for the year 2017 are mostly comprised of fuel and mining products (3.2 billion euro), chemicals (1.3 billion euro), and textiles and clothing (8.6 billion euro). However, the EU's exports into Egypt largely outpaced Egypt's since they amount to 19.8 billion euro for 2017 (against 8.1 billion for Egypt) and mainly comprised machinery and transport equipment (7.8 billion), chemicals (3.2 billion), fuels and mining products (2.6 billion), and another 2.1 billion euro in agricultural products. Along with a negative trade balance ranked at 11.7 billion euro, the pre-Revolution reshuffle of Egypt's industrial policies has translated into little trade for Egyptians.

Table 7 | Egypt's trade with the EU, 2017

	Export to EU		Import from EU		Deficit
	Mio€	% total	Mio€	% total	Mio€
Primary products	4,306	53.1	4,799	24.2	-493
Agricultural products	1,037	12.8	2,101	10.6	-1,064
Fuels and mining products	3,269	40.3	2,698	13.6	571
Manufacture	3,694	45.5	1,3149	66.2	-9,455
Iron and steel	361	4.5	562	2.8	-201
Chemicals	1,350	16.6	3,140	15.8	-1,790
Other semi-manufactures	228	2.8	1,196	6	-968
Machinery and transport equipment	702	8.7	6,908	34.8	-6,206
Textiles	454	5.6	145	0.7	309
Clothing	411	5.1	70	0.4	341
Other manufacturing	188	2.3	1,060	5.3	-872
Other product	27	0.3	752	3.8	-725
Other	89	1.1	1,165	5.9	-1,076
Total	8,116	100	19,866	100	-11,750

Source: European Commission (2018: 4).

3.2 The EU's Main Policy Instruments: The Association Agreement (2004) and the Action Plan (2007)

EU policies towards industry in the Middle East and North Africa (MENA) have been packaged within two generations of instruments, namely unilateral preferences and non-reciprocal treatments from the 1960s to 1995, and cooperation and association agreements after the Barcelona Process. Starting in the 1960s, policies towards MENA countries have involved non-discriminatory trade concessions as part of the 1972 Global Mediterranean Policy privileging MENA countries in areas not threatening to the European Common Agricultural Policy. In the case of EU–Egypt relations, the policy enabled the signing of the 1977 bilateral cooperation agreement, which is however non-reciprocal.

The shift from preferential towards bilateral agreements was consecrated through the 1995 Barcelona Process and the creation of the three-pillar Euro-Mediterranean Partnership (EMP) providing for: (i) a political and security partnership to establish a common area of peace and stability (pillar 1); (ii) an economic and financial partnership to create an area of shared prosperity (pillar 2); (iii) a partnership in social, cultural and human affairs to promote understanding between cultures and exchanges between respective civil societies (pillar 3).[34]

The EMP was translated into the 2004 EU–Egypt Association Agreement (AA) that establishes a free-trade zone between the two. The 2004 AA is central to Egypt's industry as it establishes a free-trade zone whereby customs and quantitative restrictions are removed for industrial products. The encompassing agreement is not limited to trading but aims at achieving political reform (pillar 1) along with a strong economic and financial partnership (pillar 2). Egypt's capacity reinforcement vis-à-vis the free trade agreement was largely devised under the 2007 Action Plan (European Neighbourhood Policy Instrument), which aimed at "carrying to a further stage the commitments and objectives contained in the Association Agreement" (ADE 2010a: i) through targeted programming. Since 2015, the European Neighbourhood instrument has covered EU–Egypt cooperation.

Reciprocating the 1997 cooperation agreement, the liberalization of Egyptian industrial exports has been gradually scheduled over a 15-year span. Removal of duties on industrial products was planned for a period of 15 years, following a different series of steps for four lists of products. Along with this, the AA comprises a protocol on rules of origin and features the framework for EU–Egypt cooperation to support the agreement-induced industrial reforms. Areas of cooperation are defined in broad ways, including improvement of competition and intellectual rights laws, liberalization of public procurement and more largely, creating an environment conducive to industry enhancement (e.g., improving education, technology, standardization, information). The successive main documents structuring the action of the EU have tailored the cooperation modalities and instruments: National Indicative Programme 1997–1999, Country Strategy Paper 2002–2006, National Indicative Programme 2002–2004, National Indicative Programme 2005–2006, Country Strategy Paper 2007–2013 and National Indicative Programme 2007–2010.

34 Barcelona Declaration adopted at the Euro-Mediterranean Conference, 27–28 November 1995, http://www.europarl.europa.eu/summits/mad4_en.htm.

The 2004 AA was complemented in 2010 by the EU–Egypt agreement on agriculture and processed agricultural and fisheries products.

Areas of cooperation outlined in the 2004 AA were furthered in the 2007 Action Plan (AP). In terms of industrial upgrading, the AP aims to "boost industrial development and enterprises capabilities and competitiveness through improved skills, better access to finance, promotion of new technologies, encouraging entrepreneurship and innovation, and development of efficient business support services and increase labour force productivity" but also to "promote cooperation in the area of science and technology" (European Commission 2007b: 4). Moreover, while employment is mentioned only once in the Association Agreement (2004) and gender was not an issue, things changed in the 2007 AP where both employment and gender are more present (reference to women occurs 9 times and employment 13 times). The AP stresses employment opportunities, women's rights, and women's participation in political, economic and social life.

As for EU policy on industry, the situation is quite paradoxical: industry was the core of the AA because the Free Trade Agreement focuses mainly on industrial products. Industry is largely mentioned in the Association Agreement and it is still mentioned in the AP. However, the successive documents of the EU express less and less concern about industry. The issue has almost disappeared in the rationale and the strategy of the EU. This becomes clear if we measure the occurrences of the world "industry" in the successive documents of the EU, after 2008. For example, it appears twice in a 2015 Joint Staff working document , and six times in a 2017 Joint Staff working document, but only because it occurs in names of public institutions cited in the documents (European Commission 2015b, 2017a: 5). It appears only once in the note of the Association Council of June 2017 (EU–Egypt Association Council 2017: 5), and three times in the Single Support Framework 2017–2020 but only to mention the Industry and Trade Development Strategy 2016–2020 (European Commission 2017b: 9).

This "absence of industry" in the EU programme is not new. It was the case also in the programmes to support the AP. The terms "industry" or "industrial" do not appear in the Action fiche: Support to the implementation of the Action Plan Programme and the Association Agreement (SAAP III) (European Commission 2009). This absence in and of itself would seem to indicate a clear disinterest in industry.

3.3 EU Programmes Related to Industry in Egypt (2002–2017)

To understand the scope of the EU's industry concerns, we have listed the successive programmes more or less related to industry with their corresponding budget (Table 8). It is noteworthy that only one programme, Spinning and Weaving Sector Support, in 2004, was directly related to industry. The other programmes are more or less relevant to industry and concern mainly trade. In other words, the EU operated a shift from light industry concerns at the beginning of the Barcelona Process to a set of "aid for trade" policies.

Table 8 | EU programmes related to industry in Egypt, 2002–2017

	Programme	Budget (Mio€)	Objectives	Mention of industry	Relevance to industry
2002	Assistance for the reform of the Technical and Vocational Education and Training System (Dec 2005–Dec 2011)	25 (13 paid)	Contribute to the improvement of the overall competitiveness of Egyptian enterprises on national and international markets through supporting them with highly qualified and skilled labour in different production and service sectors	*	Low
2002	Trade Enhancement Programme A (Sept 2004–Dec 2007)	19 (19 paid)	Strengthen administrative structure/build capacity to facilitate trade liberalization/ upgrade of Egyptian technical standards	*	Low
2003	Trade Enhancement Programme A	40 (40 paid)	Idem	*	Low
2004	Spinning and Weaving Sector support	40 (40 paid)	Unknown	*	High
2005	Support to the Association Agreement (SAAP) (2005–2011)	25 (13 disb. in Dec 2008)[a]	Twinning	*	Low
2008	SAAP II (2007–2010)	17	Not related to industry[b]	*	Low
2007	SIAP: Support to Implementation of the Action Plan	17	Twinning between Egyptian administration and European counterpart[c]	No	Low
2008	Support to political development and good governance	3	Support Egyptian Government's efforts to improve good governance practices in public administration	No	Low
2009	Support to the Implementation of the Action Plan Programme and the Association Agreement (SAAP III)	20	Twinning (Transport, Water, Education)	No	Low
2010	Research, Development and Innovation Programme phase II	20	Support the Egyptian Government's efforts to enhance research, development and innovation performance, facilitating Egypt's move towards a knowledge-based economy	4	Medium
2010	Support to the Implementation of the ENP Action Plan Programme and the Association Agreement (SAAP IV)[d]	10	Twinning	No	Low

2011	Trade and Domestic Market Enhancement Programme – ENPI/2011/22767[e]	20	See below	28**	Low
2015	Promoting Inclusive Economic Growth in Egypt Programme[f]	16	First component facilitates the development of micro, small and medium-sized enterprises in sectors with high potential for inclusive growth	4***	Medium
2016	EU Facility for Inclusive Growth and Job Creation (2014–2016)[g]	20 plus 40	Enabling environment for business creation tax and customs compliance to facilitate financial inclusion among SMEs	1	Low

Notes: * we had no access to the document; ** but only because of the recurrence of "Ministry of Trade and Industry"; *** but only because of the recurrence of "Ministry of Trade and Industry" and "Chamber of Commerce and Industry". Sources: a) ADE (2010b: Annexe 6: 28); b) ADE (2010b, Annexe 6: 30); c) European Commission (2007a); d) European Commission (2010); e) European Commission (2011); f) European Commission (2015a); g) European Commission (2016).

We obtained very little information on the case of spinning and weaving sector support, including the rationale and the evaluation of this action. The general purpose was given as: (a) increase resource allocation and sectoral efficiency in the economy; (b) strengthen international competitiveness of the textile industry; (c) upgrade labour skills and employability, in particular in the textile sector, to ensure sustainable economic growth; and (d) create a modern, market-driven, competitive spinning and weaving sector capable of generating jobs and employment opportunities. The details, however, would seem to indicate direct support to a public company (Table 9).

Table 9 | Spinning and weaving sector support - Promotion of EU–Egypt AA, 2004–2008

Contract title	Date (start-end)	Amount projected (Mio€)	Amount paid (Mio€)
Work plan (Fixed tranche payments)	2004	78	73
Restructuring of Misr Spinning and Weaving Company (Mehalla Kubra)	2006-2008	970,575	970,575
Support for implementation of labour pool	2006-2007	199,970	199,970
Formulation of a strategy for cotton in Egypt	2007	184,792	/
Management upgrading and privatization – holding company for textiles	2006-2006	183,797	183,797

Source: ADE (2010b: Annexe 5: 6).

Assessing all of these programmes would be of great interest. We did not find such evaluation available. According to a large evaluation on SAAP (Support to the AA) undertaken by the private consulting company ADE in 2010: "The achievements of reforms of the institutional and regulatory environment for business and trade through implementation of the 2005 SAAP programme have not been evidenced so far" (ADE 2010a: 35).

It may be also useful to provide some detail on one of the programmes of SAAP IV. The twinning project titled "Support the Egyptian quality and regulatory environment in line with international best practice" aims to strengthen the Egyptian Organization for Standardization and Quality (EOS) in improving its role in the regulatory framework governing the Egyptian quality infrastructure for the domain of technical regulations, standards and conformity assessment. The overall objective is to support capacity building towards signing an Agreement on Conformity Assessment and Acceptance (ACAA). As the EU document states, the conclusion of a bilateral ACAA aims to facilitate trade and avoid non-tariff barriers: "After the conclusion of an ACAA the products covered by the agreement can enter the EU without additional testing and conformity assessment procedures and EU products can enter freely the Egyptian market" (European Commission 2014: 8). One of the purposes of the programme is to train Egyptian administration related to trade to adopt European norms and include them in the regulation structure. Activities in this direction would include: (a) familiarizing Egyptian legal experts with the methodology for transposition of EU *acquis* into national legislation, (b) reviewing and drafting EOS related directives/regulations approximating EC directives, (c) assisting to conduct an information campaign for relevant stakeholders to familiarize them with EU harmonization, and (d) providing support in reviewing the standards development process to adjust terminology and numbering systems in accordance with European practices (European Commission 2014: 11). These are just a few examples of the drafting of a Eurocentric policy, which aims at facilitating trade between the EU and Egypt at a time when the deficit in manufactured products already stands at 9 billion euro.

From a more critical standpoint, then, the ACAA thus might be seen as seeking to bypass the numerous prohibitions and restrictions, maintained for economic, environmental, health, religious, safety, sanitary and phytosanitary reasons, that Egypt uses to protect its internal market.

3.4 Industry Out of the Viewfinder?

The relative disinterest of the EU towards industrial policy is confirmed in the latest 2017–2020 programme, which budgets 432 to 528 million euro. Of this budget, 40 per cent is devoted to economic modernization, energy sustainability and environment (Table 10).

Table 10 | Indicative allocation of commitments, 2017–2020

Sector of intervention	Amount (Mio €)
Economic modernization, energy sustainability and environment	172.8–211.2
Social development and social protection	172.8–211.2
Governance, enhancing stability and modern democratic state	43.2–52.8
Complementary support in favour of civil society and for capacity development and institution building	43.2–52.8
Total 2017–2020	**432–528**
Total 2014–2020	756–924

Source: European Commission (2017b: 21).

The only chapter of the 2017–2020 programme which may concern industry is the support for "Economic modernization, energy sustainability and environment", and only the first objective is relevant to industry: "To promote inclusive economic development and create decent job opportunities that respond to market demands in support of Egypt's Economic Reform Programme" (European Union 2017b: 7). Thus, assessing the share of industry in the programme requires a more detailed examination.

The elements presented in Table 11 show that the programme does not target industry as such: it appears neither in the objectives nor in the indicators. As stated above, the EU funds for industry appear to be marginal. Moreover, some indicators seem to be contradictory with the EU policy. For example, what is the meaning of using trade balance with Europe and with the rest of the world as an indicator? The AA has been one of the elements of the growing trade deficit of Egypt for the last 10 years. Moreover, it appears contradictory to use rural household income when the wages of lower skilled workers will decrease because of the DCFTA (see ECORYS 2014).

Table 11 | Sector of intervention within the 2017–2020 EU in Egypt Programme

Sector 1: Economic Modernization, energy sustainability and environment Specific objective 1: To promote inclusive economic development and create decent job opportunities in support of Egypt's Economic Reform Programme		
Expected results	**Indicators**	**Means of verification**
a) An enabling business environment, with sectorial policies and standards, for private sector development, trade and investment, including through public–private partnerships, is supported	a1) Doing Business Ranking a2) SBA Policy Index a3) Annual inflow of FDI in US dollars terms a4) Egypt's trade balance (with the EU and rest of the world)	World Bank EU/OECD General Authority for Investment and Free Zones (GAFI) and Central Bank of Egypt (CBE) data Government of Egypt and CBE data
b) SME development with focus on strengthening value chains and promoting innovative approaches is supported (e.g., youth entrepreneurship and incubators, start-ups, access to micro-credit and support to MSMEs)	b1) per cent of GDP generated by SMEs b2) per cent of new jobs created by SMEs	CAPMAS economic data Enterprise-level surveys
c) Local development (in rural or underserved urban areas as well as in coastal areas) and the economic potential of green and blue economy and Egypt's cultural heritage sector are supported	c1) No. of rural households increasing income (indicatively, in Fayoum, Matrouh and/or Menya Governorates) c2) Access to basic services or infrastructures in underserved urban areas in the Greater Cairo Region c3) Implementation of National Action Plan for Sustainable Consumption and Production c4) Site management plan for heritage sites prepared with an embedded community	Rapid Rural Appraisal UN-Habitat / Government of Egypt data Ministry of Environment activity reporting UNESCO reports

Source: European Commission (2017b: 16).

3.5 EU Support to Egypt's Trade and Industry Strategy

The EU operates in an advisory capacity to help the Egyptian government develop and implement its trade and industry strategy (Ministry of Trade and Industry 2016). Within the framework of this strategy, the EU is supporting the Ministry of Trade and Industry to foster SMEs, through, for example, the MISMESIS project ("Support to the implementation of strategies to foster Micro, Small and Medium Enterprises development in Egypt"). As an example of the EU programme on SMEs, MISMESIS is helping "the Ministry of Trade and Industry […] and its key stakeholders in the elaboration and implementation of relevant strategies to foster SME and entrepreneurship development as well as to improve the business environment in Egypt" (EU Delegation to Egypt 2018). The EU contribution in grants amounts to 2.39 million euro. The project builds around four components or key areas: (i) assisting in MSME and Entrepreneurship National Strategy implementation; (ii) enhancing legislative and regulatory reform; (iii) increasing access to effective and efficient Business Development Services; and (iv) improving the effectiveness of a pilot group of One-Stop-Shops and One-Single-Windows.

EU's strategy regarding SME building and employment has also targeted civil society entities to act as a middleman for soft-skills training, capacity-building and community-based employment provision for short-run projects. This strategy expressed in the extended 2014–2016 Single Support Framework has been partially channelled through the Social Fund for Development, recently replaced by a SME promotion agency, which, along with the Ministry of Trade and Industry and the Ministry of Investment and International Cooperation, provides the basis for Egypt's industrial policies. This grassroots-based approach is deemed beneficial to local actors on several levels: (a) it tackles unemployment of the most fragile societal elements (women and youth); (b) it allows for tailored training; and (c) it empowers the NGO sector.

The promotion of scientific cooperation is aligned with the European Community–Egypt Agreement for Scientific and Technological Cooperation signed in 2005. Under the agreement, EU–Egypt research cooperation was extended to energy, environment and new technologies (e.g., biotechnology, information and communication, nanosciences, nanotechnologies) (European Commission 2008) and was complemented in 2007 by the Research, Development and Innovation programme that accompanied the setting up of the Higher Council for Science and Technology. The programme aimed at "facilitating Egypt's move towards a knowledge-based economy" through the development of an "innovation culture" that brings together researchers and business entities (EU Delegation to Egypt 2015: 10). This programme is supplemented by the Horizon 2020 programme framework.

3.6 Deep and Comprehensive Free Trade Area (DCFTA)

Egypt began talks with the EU for a Deep and Comprehensive Free Trade Area (DCFTA) in June 2013 but negotiations have not advanced. The DCFTA aims to extend tariff liberalization to more agricultural goods, to services and generally speaking to standards and norms. The reduction in tariffs would entail an 80 per cent cut on EU imports and a 95 per cent cut on Egyptian imports (ECORYS 2014: 11). The DCFTA also foresees a reduction in tariff cost equivalents (TCEs) for services, with a 3 per cent reduction on the EU side and a 5 per cent reduction on the Egypt side (ECORYS 2014: 11).

The social impact of the DCFTA as modelled by ECORYS shows a slight increase in income immediately after the adoption, but a general decrease for low-skilled workers and especially in the agricultural sector as farming mobility would be extremely difficult to concretize. The projection also foresees a notable export losses in textiles (-25.4 per cent), business and ICT (-22.8 per cent) and communications (-20.5 per cent) (ECORYS 2014: 13). However, negotiations have been in a stalemate for years due to, among other issues, Egypt's "lack of interest" and the government's suspicion towards the EU (Michou 2016: 12). At the beginning of 2017, Foreign Affairs Minister Sameh Shoukry met with EU foreign ministers in order to "increase the EU's engagement with Egypt", but without any tangible results (EEAS 2017, Council of the European Union 2017: 10).

3.7 Social and Economic Effects of the EU Policies in Egypt

The EU claims that its main objective is to contribute to the prosperity of the country and the welfare of the population:

> In this context the main strategic objective for the EU's relationship with Egypt is to contribute to the stability and prosperity of the country by meeting the aspiration of its people, including women and youth, particularly with regard to ensuring social justice, decent job opportunities, economic prosperity and substantially improved living conditions. (European Commission 2017b: 3)

If we compare the previous concerns and programmes with instruments the EU provides, we may note some discrepancies. Leaving aside the generous statements to sweeten the pill and speeches full of good intentions, the reality of European policies is mainly devoted to removing obstacles to trade. The main purpose of the EU is to help Egypt to update its institutions to allow the fluidity of international trade, including norms, regulations and security. There is a central contradiction between the main objectives of EU policy focusing on free trade, and the concern for inclusive development. Based on theory and practice, trade liberalization is not the golden door to reach inclusive development, especially between countries that have not achieved a similar level of development.

Although exports have soared since the adoption of the 2004 EU–Egypt AA, this has translated into very little social gain, as employment rates in industry only slightly increased from 12.4 to 13 per cent over a ten-year span (2003–2013), while urban poverty rose (from 10.1 to 17.6 per cent) and upper-secondary schooling remained almost equal throughout the same period (from 70.6 to 70.5 per cent).[35] A number of reasons can be identified for this: (a) FDIs were mainly in capital-intensive sectors and thus employment was not affected; (b) exports of labour-intensive products are still facing several non-tariff measures; and (c) most of the exports are hydrocarbons, which are low value-added and hence have a limited effect on job creation (see below). According to World Bank economists, it seems also that the inequality measurements were largely underestimated in Egypt (Van der Veide et al. 2017). *Mada Masr* states that the "the richest 10 percent of Egyptians held 61 percent of total wealth, despite earning just 28.3 percent of income. In 2007, their share of wealth shot up to 65.3 percent, although their share of income dropped in 2008 to 25.57 percent. The top decile's share of wealth in 2014 rose even

35 The period covers 2003–2013 as data are missing in the subsequent period.

more to 73.3 percent" (Diab 2016).

The EU has commissioned a study on DCFTA. Through a quantitative and qualitative analysis, ECORYS assessed the expected social, economic and environmental impact of the DCFTA on Egypt (ECORYS 2014). The social impact of the DCFTA as modelled by ECORYS shows a slight increase in income immediately after adoption, but a general decrease for low-skilled workers and especially in the agricultural sector as farming mobility would be extremely difficult to concretize. The projection also foresees notable export losses in textiles (-25.4 per cent), business and ICT (-22.8 per cent) and communications (-20.5 per cent) (ECORYS 2014: 13). As an overview, the main conclusions are the following: (a) GDP will increase by 2 per cent in the long run; (b) lowering of non-tariff measures will be the most important policy to achieve the gains of the DCFTA; (c) trade with Europe will increase significantly; (d) wages of low-skilled workers will decrease by 2 per cent and those of medium-skilled workers will increase; (e) consumer prices in Egypt are expected to increase by 2 per cent and lower-skilled workers' welfare will deteriorate accordingly; and (f) 12 to 13 per cent of workers will have to move from one sector to another.

The two tables below (Tables 12 and 13) show that the impact of the DCFTA would be deceiving for most of the industrial sectors (loss in the share of value added, increase of imports and decrease of exports). The only sector that overperforms is "Other machinery and equipment". This corresponds to ISIC Rev 3 sectors 29, 31 and 33 (Division 29 Manufacture of machinery and equipment; Division 31 Manufacture of electrical machinery and apparatus, Division 33 Manufacture of medical, precision and optical instruments, watches and clocks).

Table 12 | Sector-specific changes in Egyptian output

	Sector baseline share of total VA	% change in VA
Mining	8.9	-3.4
Livestock and meat products	1.1	-7.1
Vegetable oils and fats	0.0	-9.9
Other processed food	2.7	-11.7
Beverages and tobacco	2.4	-30.4
Textiles	3.7	-11.2
Wearing apparel	3.9	-4.4
Leather products	0.2	-1.1
Wood, paper, publishing	1.6	0.2
Petro-chemicals	0.4	-1.8
Chemical, rubber, plastic products	1.9	-5.2
Ceramics, cement, etc.	2.3	-4.1
Primary metals	1.9	-4.7
Fabricated metals	1.4	-10.7
Motor vehicles	0.6	1.7
Electronics, computers	0.9	-4.7
Other machinery and equipment	0.7	376.2

Other manufacturing	0.1	1.9
Construction	5.5	-1.9
Business and ICT	4.7	-6.7

Source : ECORYS (2014: 29–30).

Table 13 | Sector-specific changes in Egyptian trade, long-run setting

	Share of total exports %	% change in total exports	Share of total imports %	% change in total imports
Mining	8.9	-5.0	3.5	14.2
Other processed food	4.3	7.2	3.7	111.1
Beverages and tobacco	0.5	-5.3	0.6	424.8
Textiles	5.6	-25.4	3.3	31.0
Wearing apparel	4.9	-23.6	1.4	28.7
Leather products	0.5	5.4	0.4	25.9
Wood, paper, publishing	2.0	-7.0	5.1	67.7
Petro-chemicals	5.8	-3.1	3.0	11.9
Chemical, rubber, plastic products	10.7	3.2	15.2	9.4
Ceramics, cement, etc.	2.0	-3.7	0.8	44.1
Primary metals	9.8	0.7	8.3	39.7
Fabricated metals	1.4	-13.8	2.3	53.5
Motor vehicles	0.6	25.5	6.8	4.4
Electronics, computers	0.4	3.7	2.1	58.7
Other machinery and equipment	6.5	573.8	12.7	19.8
Other manufacturing	0.2	7.8	0.4	68.1
Other transport services	14.7	-9.9	1.1	14.0
Water transport	0.4	0.7	0.1	2.3
Air transport	2.6	75.1	1.1	-10.5
Business and ICT	2.7	-22.8	3.3	28.1

Source : ECORYS (2014: 35).

The explanation given by ECORYS for the above results is that these sectors have a share of imported input (61 per cent) significantly higher than the other industrial sectors, namely chemicals (44 per cent) and fabricated metal (22 per cent). The second reason is that the DCFTA would lower the cost of inputs because of the importance of the non-tariff measures. However, the sheer amount of this increase is also an effect of the methodology used, a CGE model. Moreover, these explanations are not convincing because the same effects should be observed by the model for the "Motor vehicles" sector, which has a share of import input of 70 per cent (ECORYS 2014: 32).

As far as the employment effects of EU policies are concerned, it is even more difficult to assess them. The employment impact of European trade is diluted in the employment impacts of total trade, and the corresponding employment effects for industry are difficult to isolate

from employment effects in general. Moreover, whatever the trade agreements and the liberalization of the country, trade depends also on internal politics. Aboushady and Zaki (2018) show that exporters in Egypt face several endogenous constraints such political instability, unequal competition from state-owned firms, and complicated business-related procedures.

Furthermore, it can be said that, due to the low level of EU intervention in industry, the EU grants have marginal effects on Egyptian employment. In addition, the effect is expected to be very low due to the relative share of Egyptian exports to Europe and because of the structure of trade with Europe. Except clothing, which is labour-intensive, most of the exporting sectors to Europe are capital-intensive. The most important Egyptian export sectors to the EU are fuels and mining products. Among manufactured products, chemicals (16.6 per cent) and machinery and transport equipment (8.7 per cent) come first and then textiles (5.6 per cent), clothing (5.1 per cent) and iron and steel (4.5 per cent) (European Commission 2018: 4).

Another way to question the links between trade and employment is based on the employment-elasticity of the sector. A study focusing on industrial sectors states that exports have a positive impact on employment (El-Ghamrawy 2014). In particular, the study shows positive impact on employment in the public sector technology-intensive group and in the private sector low-technology group. However, the impact on wages is different among the skilled and non-skilled workers. An interesting finding is that exports do not narrow the gap between the two. This is confirmed by other studies (Said 2012) and by the ECORYS (2014) evaluation. A further study (Zaki C. 2011: 3) shows also a positive impact of trade on employment: "Exports affect men's wages and women's probability of working. In other words, the adjustment on femal[e] labor market is done through quantities and the one on mal[e] labor market is done through prices". However, this may occur in a context where the wage per hour in manufacturing has declined between 2015 and 2016 and was the lowest within the region (El Obeid 2018).

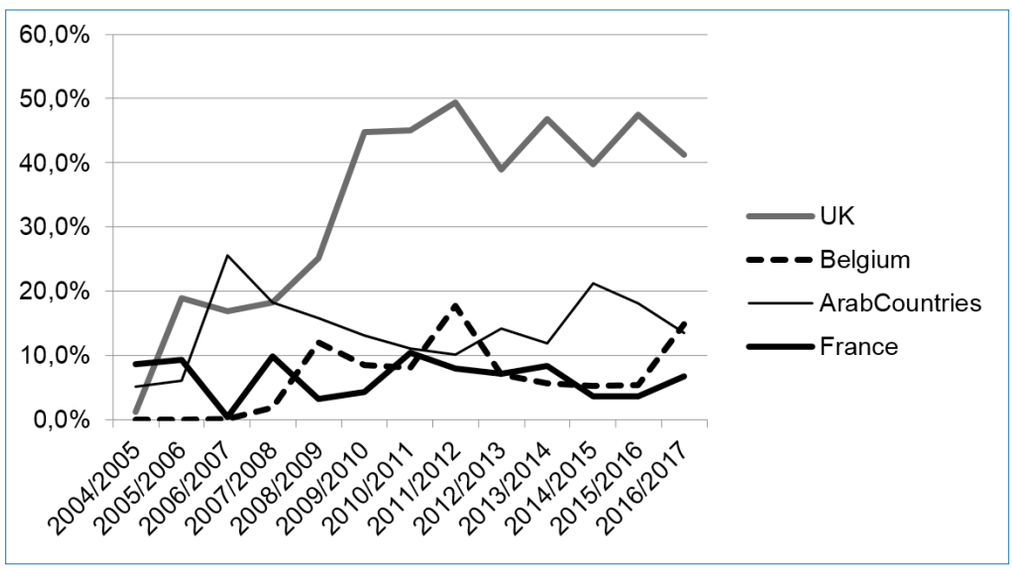
One of the effects of the DCFTA is related to labour displacement between the different sectors (ECORYS 2014: 38). In the longer term, around 13 per cent of less skilled and 12 per cent of low skilled work may move to expanding sectors.

Another discussion concerns the impact of FDI, and especially its impact on output or employment. This impact is discussed in the literature: for example, Aboel Farag and Abed revealed that "the effect of FDI on output is insignificant or even negative" in the long term (Aboel Farag and Abed 2017: 17). Moving to sectorial analysis, FDI has positive impacts on manufacturing (Aboel Farag and Abed 2017: 18). However, looking at its sectorial destination, one can see that FDI is concentrated in a few sectors: mainly oil (53.5 per cent) and then much less to services (10.4 per cent). Considering industry, FDI goes only marginally to the manufacturing sector (only 3.4 per cent of inflows in 2015/2016). Therefore, the distribution of FDI is not very favourable to employment because oil is a capital-intensive sector. Furthermore, the energy sector and especially hydrocarbon employs mainly males. We may assume that European FDI does not favour gender equality.

Lastly, European FDIs appear to be more determined by sectorial interests and investment opportunities than by the AA. Looking at the countries of origin, the UK is the major contributor to FDI inflows in Egypt (Figure 6). It has largely participated in the privatization programme of the Nazif government. Its participation is due to its interests in finance and oil. The other contributors are Belgium and Arab countries, particularly the Gulf. Except for the marginal

participation of France, other European countries have not significantly come on board after the signature of the EU–Egypt AA.

Figure 6 | FDI inflows by origin, 2004–2017



Source: Central Bank of Egypt.

Conclusion

This report investigates the European policy on industry in Egypt by first assessing the sector's position within the country's economy. Although sizeable, the industrial sector's contribution to the country's GDP, exports and employment remains weak. Industry remains a sector marked by the coexistence of state-owned groups, large companies protected against domestic and international competition on one hand, and small companies, largely informal, facing high market-access costs, financing obstacles and economic insecurity, on the other hand. The share of the former is particularly significant when it comes to the main body of Egypt's industrial system: oil exploitation. Some industrial sectors such as textiles have suffered multiplication of social conflicts, whereas the previous decade saw successive major shocks: the 2008 financial crisis, the 2011 revolution and the counter-revolution in 2014 under Sisi, and more recently the sharp devaluation of the Egyptian pound. To address the situation, President Sisi has been aiming at putting industry back at the centre of public policies as most of his predecessors did. This ambition translated into Vision 2030, which sets out general guidelines for the industry sector. Even if, as shown in this report, the document fails to provide an encompassing strategy and to effectively address the most pressing needs of the local population such as employment, the European Union relies on it to calibrate its actions.

The liberalization of international trade has naturally affected Egyptian industry, notably by increasing the sector's trade deficit with Europe and the rest of the world. Although having increased significantly, FDIs have only partially offset the deficits. Concentrated on capital-intensive sectors, Egypt's exports or foreign direct investment have not significantly contributed to improving employment. Over time, European policies have strayed from industry towards aid-for-trade support to accompany the reforms necessary to implement the Association

Agreement. Hence, European policy has shifted towards a stronger focus on standards, certifications and non-tariff barriers in accordance with the DCFTA negotiations. Industry as such no longer translates into a policy's specific objective but rather into sub-objectives (i.e., employment, inclusive growth, SMEs), which aim primarily at serving the Union's interest by reducing non-tariff barriers to trade and by inviting Egyptian institutions to adapt to European or international standards.

To conclude, Egyptian industry suffers from structural weaknesses that successive reforms have failed to eliminate and that European policies can only modestly address. Sisi's orientation toward a mixed new liberal-Keynesian economy faces internal constraints such as corruption, collusion between business and politics, rent-seeking behaviour, economic insecurity, arbitrary and slow economic regulations – in short, a lack of "economic rule of law" that hinders economic development except for rent-seeking sectors. Added to this is a voluntarist policy on the part of the state that likely creates anti-competitive foreclosure effects by orienting resources not towards profitable sectors but towards those which endorse the government's somewhat grandiose strategy approach.

From a bottom-up perspective, the current Egyptian industry strategy and the EU policies in the country, which are mostly concentrated on "aid for trade", appear not to respond to local people's needs. In terms of priority issues, they do not comply with people's expectations for better wages, equal distribution of resources, creation of good quality jobs, more transparent institutions and so on. In terms of actors, the involvement of Egyptian civil society in decision-making regarding industrial policies and EU–Egypt economic relations is almost entirely absent. So, from a policy point of view, based on the analysis provided in this report, it is clear that EU policies in Egypt need to be better tailored to respond to people's local needs and priorities. Given the lack of social assessment of its trade policies and programmes, the EU should be more committed in this regard by undertaking systematic investigations. In order to ensure independent assessments, this could be done, for example, by giving the task of conducting studies to grassroots civil society actors that are in the field and can therefore provide studies taking into account the views of local communities and workers. Moreover, given the scant involvement of Egyptian civil society actors in national policy decision-making, the EU could refrain from blindly channelling its support to Egyptian national industrial strategies that are fully top-down, and start dialoguing with those civil society actors that are critical of such policies.

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This project is founded by the European Union's Horizon 2020
Programme for Research and Innovation under grant agreement no 693055