



EGYPT: ECONOMIC DEVELOPMENT AND POLICIES CONFERENCE

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Egypt's Economic Transformation: Challenges in Productivity Growth and Labor Reallocation

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Introduction & Main findings

- ▶ Countries that have witnessed an economic transformation have begun a process of raising labor productivity through:
 - Shortening the gap to the technology frontier.
 - Employment transition from agriculture to manufacturing and services.
- ▶ The literature broadly agreed that labor reallocation in Egypt has weighed negatively on productivity growth.
- ▶ With underdeveloped agriculture and low-productive non-oil manufacturing sectors and services, the Egyptian economy has historically been driven by low-value-added activities.

Introduction & Main findings

- ▶ Since the 1990s, workers have been moving to sectors with shrinking labor productivity growth.
- ▶ Multiple factors are driving these patterns:
 - The macroeconomic and microeconomic implications of the state role.
 - Other factors such as human capital, institution quality, and political economy.
- ▶ Consequently, exports continued to be either resource-based or low-value-added oriented, resulting in limited export diversification and sophistication.

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Methodology

- ▶ The chapter employs the methodology of de Vries et al. (2015):

$$\Delta P_t = \sum_{i=1}^n \theta_{i,t-k} \Delta p_{i,t} + \sum_{i=1}^n \Delta \theta_{i,t} p_{i,t-k} + \sum_{i=1}^n \Delta \theta_{i,t} \Delta p_{i,t} \quad (1)$$

- ▶ Where: P_t and p_t are the economy-wide and the sectoral labor productivity, respectively. θ is the sectoral employment share.

$$\sum_{i=1}^n \theta_{i,t-k} \Delta p_{i,t} \quad : \quad \text{Within-sector effect at time } t$$

$$\sum_{i=1}^n \Delta \theta_{i,t} p_{i,t-k} \quad : \quad \text{Static reallocation effect at time } t$$

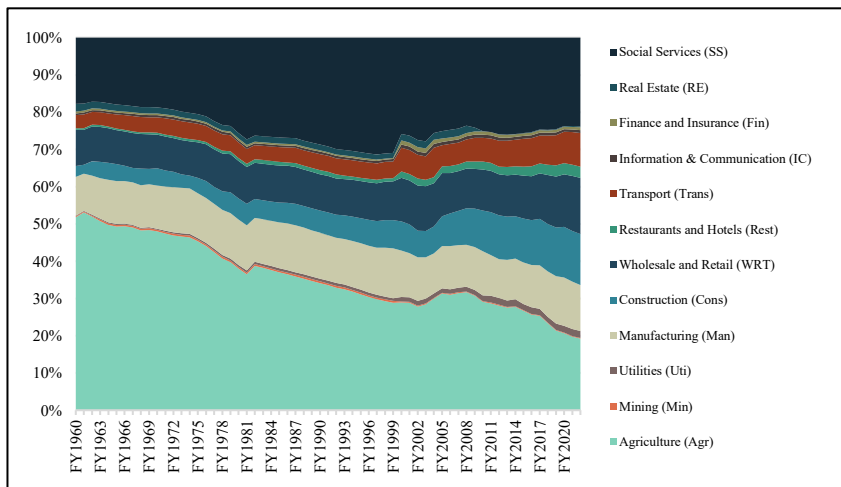
$$\sum_{i=1}^n \Delta \theta_{i,t} \Delta p_{i,t} \quad : \quad \text{Dynamic reallocation effect at time } t$$

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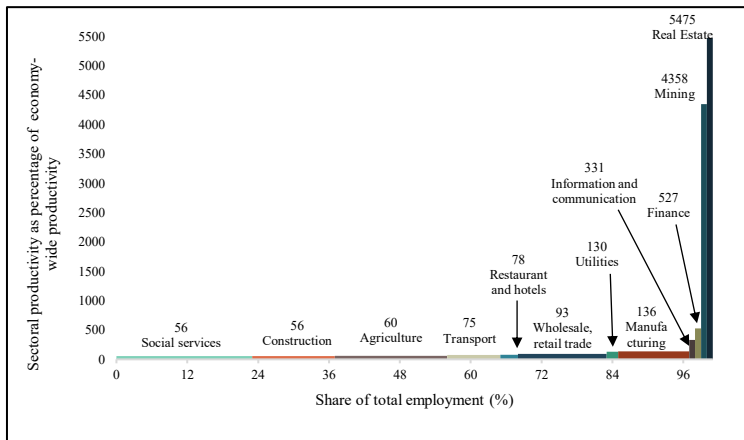
Labor Reallocation in Egypt

Figure 1: Sectoral employment share in Egypt (FY1960-FY2022)



Productivity Gaps in Egypt

Figure 2: Productivity gaps in Egypt in 2022



Note: 100% means that the sectoral productivity is equal to the average labor productivity of the economy

Patterns of economic transformation in Egypt

Figure 3: Economy-wide labor productivity decomposition in Egypt

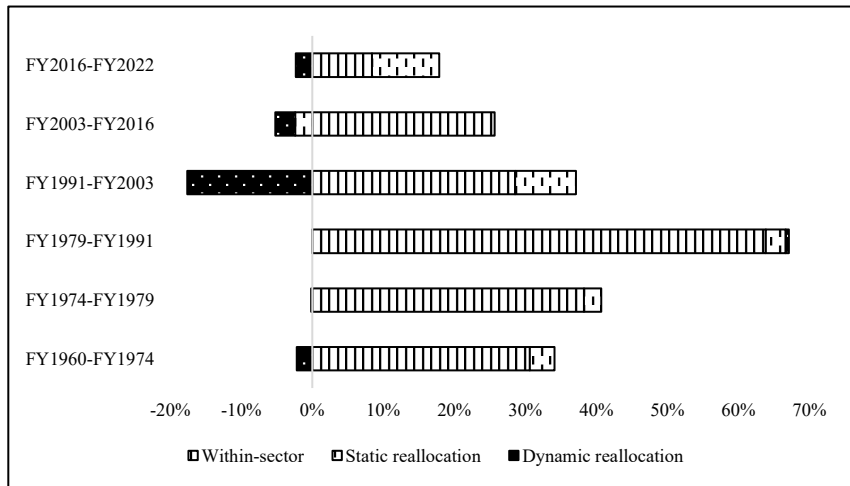


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Drivers of the Egyptian economic transformation patterns

- ▶ Structural macroeconomic imbalances
 - Fiscal imbalances & low private investment rates.
 - High and volatile inflation rates.
 - Appreciation of REER.

- ▶ Human capital and labor market dynamics
 - Mismatch between labor supply and demand.
 - Informal sector expansion.
 - Spatial disparities and geographic concentration.

Drivers of the Egyptian economic transformation patterns

► Business environment and firms' performance

- State dominance.
- Challenging business environment.
- Absence of clear industrial policies linked to specific KPIs.

► Political economy and institution quality

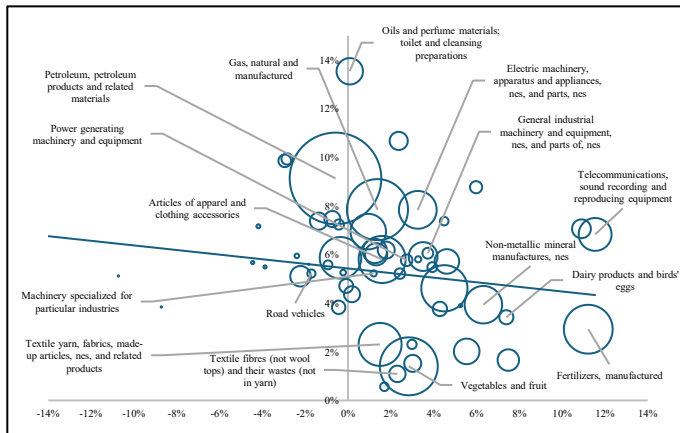
- National context.
- Prioritizing short-lived adjustments over long-term structural reforms.
- Low quality of institutions.
 - Cumbersome bureaucracy.
 - Institutions fostering innovation remain relatively limited.

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Implications on international competitiveness and export performance

Figure 4: Growth of world's trade and Egypt's RCA (FY1991-FY2021)



Note: X-axis: CAGR of Egypt's RCA. Y-axis: CAGR of world trade.

Node size: the share of the product X in Egypt's exports in 2021

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Conclusions

- ▶ Over the past sixty years, Egypt has concentrated labor in low-productive sectors, resulting in limited economic transformation.
- ▶ The economy mainly relied on natural resources or low-value-added exports. Similarly, rental sources as Suez Canal and remittances remained key sources of foreign income.
- ▶ It is crucial for future economic policies to focus simultaneously on short-term stabilization plans and long-term developmental vision, through ensuring that the prerequisites of economic transformation are in place.

Thank you!