



EGYPT TOMORROW ECONOMIC FORUM
Video Interviews

THE CORONA ECONOMY: CRISIS & OPPORTUNITIES

EPISODE TEN:
THE PANDEMIC: AN OPPORTUNITY
TO REPOSITION INDUSTRIAL THINKING

*Interview with Tarek Tawfik,
Vice Chair, Federation of Egyptian Industries
& Egyptian Center for Economic Studies*

*Interview conducted by Seif ElKhawanky, CIPE Egypt Program Officer,
on May 10, 2020*

BACKGROUND:

In response to the coronavirus crisis and the havoc it created on a global scale, CIPE's Egypt Tomorrow Economic Forum "Masr Bokra" launched a new video-based interview series title, 'Corona Economy: Crisis & Opportunities'.

The series invites leading Egypt's business leaders, young entrepreneurs, academics, opinion-makers, policy makers, and leaders of think tanks to share their perspective on the evolving situation and implications for the economy in general, and the business environment. The series provide insight and analysis into the economic and social impact of the current crisis, both at the macro and the micro level, and attempt to glean insights into the path ahead.

The transcript below has been condensed and edited for clarity.

Link to Arabic Video: <https://www.facebook.com/CIPEArabia/videos/251994989340788/>

INTERVIEW AT A GLANCE:

- *Egypt government dealt with the pandemic in a pragmatic manner, seeking to strike a balance between total lockdown and maintaining some normalcy; the approach deserves praise rather than rebuke.*
- *Much needed now are administrative reforms focusing on overhauling the bureaucracy, improving the investment climate, and streamlining rules and procedures that have hindered investment in Egypt.*
- *We need to rethink and redefine the role of the state in a number of areas, including healthcare and health insurance, infrastructure, and education; these areas should receive the state's utmost attention.*
- *Give way to the private sector to play its role in the different industrial, services, and infrastructure sectors.*
- *Government has frequently professed its intention to exit from a number of sectors, including seawater desalination, wastewater treatment, and road construction and management; it is now an imperative.*
- *No doubt, in the short term, informality will increase in the pandemic environment*

CIPE: *Welcome to a new episode of the series, 'Corona Economy: Crisis and Opportunities'. Our guest today, Mr. Tarek Tawfik, is a leading industrialist and a key private sector player. He is the Vice Chairman of the Federation of Egyptian Industries, the Vice Chairman of the Egyptian Center for Economic Studies, and the former President of the American Chamber of Commerce in Egypt. He also holds a number of positions in organizations involved in economic and industrial development and private sector investment.*

Mr. Tawfik, many are looking at domestic industries and foreign direct investment flows as a vital lifeline during this pandemic. Before the crisis hit, the Federation of Egyptian Industries (FEI), with support from CIPE, developed a national reform agenda to promote industrial growth and foreign investment in Egypt; the agenda included industry-specific policy recommendations to address the myriad of challenges facing industries. So, in light of the current developments, we would like you to share with us your thoughts about the impact of the crisis on these challenges, and identify the biggest challenges facing the industrial sector amid the pandemic, along with any recommendations.

Tawfik: *It is a pleasure for me to be here; this is an unprecedented crisis. Attempts to foretell what will transpire in the coming period are not totally trustworthy or reliable. We are still in the midst of the crisis; some industrial sectors have been negatively affected by the outbreak, while others have benefited. That said, there are many linkages between the winning and losing sectors, and it is difficult to untangle these linkages. For example, if we look at the tourism industry, which was definitely hit hard by the crisis, you will find that there are some sixty or seventy different industries that*

are fully or partially interlinked with it. More so, there are other important factors that are affecting the Egyptian economy, including remittance inflows and tourism revenues, both are major sources of foreign currency. Disruptions in these revenue streams have a direct impact on industries as they affect the US dollar exchange rate, and in turn, the cost of production inputs since a significant proportion of inputs are imported. Thus, we are currently experiencing the economic impact of the crisis.

In Egypt, the government dealt with the crisis in a pragmatic manner, pursuing a balanced middle ground approach, which sought to strike a balance between total lockdown and maintaining some normalcy; and regardless of what is being said, in general, this approach deserves praise rather than rebuke. Like in many other countries, the economy represents the pulse of life to the Egyptian citizen; the damage resulting from a full shutdown of the economy in a country like Egypt is likely to far exceed the damage inflicted by the pandemic itself. I do not wish to delve into details, but I can say that, in general, this situation presents a substantial advantage. Compared to other countries in the region, Egypt has a well-diversified economy, however, the levels of maturity vary across the different sectors; key sectors include agriculture, industry, service, tourism, Suez Canal, mining, and energy. The one thing I do not want to do is I do not want to understate or discount the devastating impact of the pandemic on the Egyptian economy. But, it seems plausible to say that, relatively speaking, this diversification has helped the Egyptian economy; economies that are dependent on a single source of income, such as oil, are being hit more severely than the Egyptian economy. In fact, the agricultural industry, as well as other industries, such as pharmaceuticals, health care, food, construction, and building materials, have continued to operate, and relatively speaking, the damage inflicted on these industries has been more or less contained. In a way, we might consider these industries as the relief factor that is keeping the country holding on, albeit barely.

The government took a positive step and asked the IMF for financial support to help it deal with the coronavirus crisis. Irrespective of the fact that this latest loan will increase Egypt's debt obligations, yet, we have to recognize that at times of crisis, the prime responsibility for tackling the situation falls primarily on the shoulders of the state, which is the one that runs into debt; however, we also have to remember that countries do not go bankrupt. This move reassured industrialists that foreign reserves will not be depleted, which was the case between 2011 and 2016.

This situation requires the government to undertake serious and meaningful reforms in the coming period; the reforms I am referring to here are not the kind of reforms, whose burden falls on the shoulders of the people, but rather administrative reforms that are focused on overhauling the bureaucracy, improving the investment climate, and streamlining rules and procedures that have hindered investment in Egypt. Across the world, during these times of crisis, the role of the state expands; this crisis is of a humongous magnitude, and the private sector, whatever its size, cannot confront it. With the expanded role assumed by the state, many countries adopted quantitative easing, which is necessary; in Egypt, all measures taken by the government were to a large extent satisfactory.

With this in mind, we need to rethink the role of the state, specifically, we need to redefine the role of the state in a number of areas, including healthcare and health insurance, infrastructure, and education; these areas should receive the state's

utmost attention. At the same time, efforts should be made to streamline rules and regulations, and give way to the private sector to play its role in the different industrial, services, and infrastructure sectors. I would like to mention here that moving in the direction of selling a number of power plants to private investors, which is being considered by the government, is commendable; the government has frequently professed its intention to exit from a number of sectors, including seawater desalination, wastewater treatment, and road construction and management; it is now an imperative. State revenues have been negatively affected by the crisis, and the state has already undertaken very important projects in these areas. Thus, it is now the time that the state allows the private sector to invest in these areas; this promises additional revenues and will ease the burden on the state budget; these resources can then be steered in the right direction to fund urgent public priorities —this shift, in my view, is the biggest challenge. I want to stress here that I am not talking about introducing a novel principle, in fact, as I just mentioned, the state has frequently professed its intention of exiting from some sectors; what I want to underscore here is the urgency of the matter, it is critical that the exit process is expedited.

Regarding the shape of potential recoveries from COVID-19, I do not believe anyone can accurately tell what will recovery look like for the many industries that were adversely affected by the outbreak; the recovery curve can be different for each industry, some industries enjoy a quick, V-shaped recovery, while the rebound for others can be slower, U-shaped recovery or at worst, L-shaped, never to return to normal. It is too soon to tell, and determining the shape of the recovery requires comprehensive research and the use of econometric models. At the Egyptian Center for Economic Studies, we have embarked on an extensive research effort to develop a better sense of how things are going to transpire. As you know, our economy is directly linked to the global economy, thus, it is impacted, positively or negatively, by issues affecting the global economy; the global decline in travel and tourism, and the decline in oil prices will certainly affect our economy.

Self-sufficiency, an alarming term, is now being echoed across the world; this is a matter of concern, and we should not move in that direction. There is no country around the world that has the capacity to attain self-sufficiency, and global trade has to continue. Perhaps, there could be a review and adjustment to the current supply chains in order to reduce reliance on any one supply source, such as China. At any rate, there is an existing trend to identify and build local and regional supply chains to help create a less concentrated and better-balanced supply chain ecosystem. Accelerating automation and digitalization is another area of concern as it could produce negative effects. While there certainly are benefits to be accrued from moving in that direction, however, during these time, and in light of the efforts to reconsider the global supply chains, many industries and countries are concerned that what was expected to happen over five or ten years, will now happen over two years, this is particularly challenging for countries that are seeking to build local supply chains. To reiterate, we have not yet developed a clear and comprehensive vision of the future, as many issues are still being examined and contemplated; I am doubtful that any country has such a vision, regardless of all that is being proclaimed and the catchy slogans making the rounds.

CIPE: *In your view, what are the key legal and regulatory issues that need to be addressed to enable the private sector to operate more effectively and efficiently in the coming period, and what are your specific recommendations to bolster private sector engagement?*

Tawfik: Recently, the government has adopted a number of exceptional procedures, in my view, these measures should be institutionalized and be part of the norm. For example, in response to the pandemic, the government has temporarily suspended the requirement to authenticate importation documents for six months, a move which would facilitate trade and improve the standing of Egypt in the international trade arena; certainly, there is no need to reinstate this requirement. Additionally, customs outlets are now operating around the clock, this too, should continue post-pandemic. The chambers of commerce have proposed a draft bill to integrate the commercial and industrial registries, along with importers' registry; the bill, which is long overdue, is currently being discussed, and it is very pertinent to the current crisis. There is also a need to review and streamline licensing and permit requirements, whether those related to land-allocation or the operation of companies and factories; all these requirements and procedures are hindering investment. The current crisis presents a perfect opportunity for reform if we are interested in attracting foreign investment to Egypt, this is the right time to undertake these reforms. India is going to attract a significant proportion of investments that are leaving China; in this regard, it will be wise to examine the practices that India adopted to attract foreign investment and replicate them. Investment decisions are color-blind and are not made based on considerations of religion or nationality. Simply put, investment is attracted to enabling environments in which it can efficiently operate without obstacles. Unfortunately, the investment barriers in Egypt have been accumulating over the years. However, for the first time today, the government has made removing these barriers a policy priority. We are hoping that the government speeds up its efforts, particularly given the consequences of the pandemic.

CIPE: *In these days, we hear much discussion about labor relations during the pandemic. Could you share with us your thoughts, and those of industrialists in general, on the issue—whether the pandemic is reshaping these relations, and, if so, whether this change is expected to continue when the crisis end.*

Tawfik: You cannot generalize, these relations vary according to the sector. For example, in the tourism sector, the situation is out of the employers' hands. In fact, FEI is discussing the issue with the government; our discussions are focused on addressing the issue of liquidity, not profits and losses. Addressing liquidity constraints will help employers retain staff for a period of three months, and we plan to re-assess the situation at the end of this period. Going back to the tourism sector, at FEI, we committed to protecting jobs; the issue was deliberated in FEI Wage Committee, and it was agreed that employers should offer employees a month paid leave from their accumulated annual leave allowance. In the event that the business shuts down, the Pandemic Emergency Fund, which was set up by the government, shall provide laid off employees with 50% of their wage (with a ceiling) for a period of three months; it was also agreed that the situation is assessed at the end of the three months. This is a commendable measure in that it alleviates some of the pressures resulting from the crisis. More so, today, the President issued a law by decree, which included a number of measures aimed at easing the liquidity constraints for distressed and shutdown

businesses, on the condition they retain their employees; the law mandated deferring the payment of social insurance tax and personal income tax, rescheduling debts and deferring payment for six months to name a few. I would like to highlight a very important point that many overlook—in the industrial sector, a business’s workforce is considered part of its capital, the workforce is not disposable. Workers who were hired 20 or 30 years ago become part of the business’s human assets, and their real value lies in their accumulated knowledge, expertise, and experience and the coaching and mentoring they provide to newcomers; laying off these workers would represent a significant loss to the business.

Contrary to what is reported in the media regarding layoffs, I want to stress that retaining employees entails the consent of both parties as both share some common interests. Thus, we pledged to revisit our agreement regarding the retaining of workers every three months, it is a critical issue. I would also like to mention that we are in continuous discussion with the government regarding the minimum wage for private sector workers; we are in agreement about the hourly rate, which the majority of industries are adhering to anyway. We still have some reservations regarding the definition of the wage, and some other details, however, right now is not the time for this discussion. To sum, I would like to reiterate that a business’s workforce is considered part of its capital, and laying off workers would represent a significant loss to the business.

***CIPE:** FEI Reform Agenda issued in January 2020 addressed the issue of health insurance. With the passage of the new health insurance law, and in light of the current crisis, what are the implications for the private sector in this regard?*

Tawfik: No doubt, providing employees with health insurance is an urgent need. But I would like to return to a point I raised earlier, specifically the critical role that the state should play in establishing a healthcare system, which is one of its fundamental obligations towards its citizens. More so, the Constitution includes a provision that commits the state to allocate a specified percentage of GDP to healthcare. The state has to adhere to this constitutional obligation.

To secure adequate funds to meet the constitutional healthcare state obligation, the state should disengage from investing in all sectors that the private sector has the capacity and capability to invest in. In spite of the current crisis, you will possibly be surprised to learn that numerous foreign investors, both from the region and outside it, are interested and willing to invest in public utilities, such as electricity, wastewater treatment, road, and seawater desalination. In the meantime, and until the desired reforms are fully realized, the government can take advantage of existing tools to address the need of coming up with resources to meet its obligations. One of these tools is Egypt’s Sovereign Fund, which provides a parallel fast-track channel for dealing with Egypt’s unused assets, and thus, can help in generating revenues expeditiously. As long as there is the political will to move in that direction, we can achieve positive outcomes in the near future.

CIPE: *Moving on to the topic of the informal sector, FEI and some of its members have expressed some reservations about the issue of the minimum wage, do you think that adopting this requirement might result in an increase in informal practices? Additionally, I would like you to address the larger picture, in your view, what are the chances of integrating the informal sector into the economy? Should we be optimistic? Does the current situation present an opportunity to promote formalization, or will the challenges be further exacerbated in the coming period?*

Tawfik: First, I want to stress that FEI does not have an issue with the concept of minimum wage per se, but rather, it is concerned about how it is being defined, in other words, what to count as part of minimum wage. According to ILO definitions, minimum wage includes two components: cash and in-kind remunerations. We are only grappling with one question, namely the treatment of this in-kind component. For example, employers provide health insurance, and in some remote areas they provide housing and transport (other than public transportation); in the hospitality industry, employees receive gratuities and a portion of the service charges, thus, if these elements are to be included in the calculation of minimum wage, then the issue will be resolved. I believe we are going to reach a consensus on this matter. Generally speaking, the minimum wage requirement is not an issue for the industrial sector at large; in fact, in many industries, remuneration exceeds the limit set by the government. Moving on to the topic of informal sector, there is no doubt that, in the short run, informality will increase in the pandemic environment. During the crisis, it should come as no surprise that idle workers from hard hit sectors, such as tourism, hospitality, and services drift into the informal sector, as it is their last resort to subsistence—their choices are limited. In the short run, I believe this will be a problem, especially that it is quite possible that a considerable number of Egyptians working abroad would return, and would look for employment.

Again, I have to bring us back to my point regarding the imperative of attracting foreign direct investment to Egypt. In this regard, I would reiterate again the urgent need for dismantling the overblown bureaucracy, as well as pulling out state investments from productive, service and energy sectors. True, at some point, public investments in productive sectors were justified on account that the private sector was unprepared for such investments, now, the time has come for the state to exit this scene and turn it over to the private sector. If this is to happen in the near future, it will send a strong message to reassure foreign investors, and demonstrate Egypt's seriousness and commitment about attracting investment. Once you give that right signal, and at the same time, streamline rules and regulations, a cascading effect will start and result in increased investments. In this regard, I would recall here that Egypt fared well in the Economic Complexity Index Review released in October 2019; Egypt was identified as one of seven or eight countries that have the capacity to attain a double-digit growth rate in the coming decade, primarily because of its diversified economy and the skill sets of its workforce across sectors, albeit the variance in skills between the sectors. To sum up, Egypt's diversified economy provides it with a solid point of departure; this characteristic, along with undertaking a set of major interlinked reforms, such as streamlining of rules, regulations, and procedures, enhancing the relevant legal frameworks, and improving the litigation system, will definitely increase Egypt's chances of attracting investment.

***CIPE:** Since your proposition entails increased government spending to meet its obligations, such as providing health care or education, do you think the government will raise taxes? If this proves to be the case, would this disincentivize formalization? Would transitioning to a cashless economy help in this regard since the resulting reduction in tax evasion can help boost tax revenues without the need to raise taxes?*

Tawfik: I do not believe taxes will go up. An essential element in the reform effort is providing investors with clarity vis-à-vis policies that affect them. Most recently, income taxes were increased, which was unwarranted as the resulting impact on state revenues is marginal. No doubt there will be a tendency to increase state revenues one way or another. Last week, a law was passed with the purpose of increasing state revenues from a number of sectors, which are not too critical; it sought to raise some LE 15 billion. Like other countries, the Egyptian state is facing a crisis, and all countries will be looking for ways to maximize their revenues. Maximizing revenues should be realized through broadening the pool of taxpayers rather than penalizing law-abiding taxpayers. For example, the micro and small enterprises law that was passed provides informal enterprises with tax amnesties to coax them into the formal economy; this can be considered an important instrument to incentivize formalization, and along with other incentives should deter businesses from joining the informal sector in the future. Indeed, this is a very meaningful endeavor. Unfortunately, the culture of informality has become embedded in many aspects of the Egyptian society, however, I believe there is still hope. An important point that should be considered in this discussion involves the definition of the informal sector. For example, by default, the agriculture sector is informal, albeit, its activities are known to the government; this is not going to change, especially given the fragmented land holdings, and the nature of employment opportunities in the sector, mostly seasonal and casual, which is also expected to continue on for some time; the best you can do is to provide workers with insurance and some benefits. On the other hand, while the construction industry is formalized, a large portion of its workforce is informal; providing daily construction workers with benefits such as social insurance and health insurance can serve as a cushion and protect the vulnerable. Thus, coming up with a precise definition of informality, and clearly articulating its component will help in developing a new picture of the sector. The informal economy is here to stay in Egypt, and this is no different from other countries. A prime reason for its existence is the prevalence of cumbersome and complex procedures that pushed people into informality to eke out a subsistence. Thus, simplifying these procedures will bolster the incentives to formalization; in fact, a study conducted in the 2000s concluded that the extortion payments that an informal business makes are not significantly lower than its potential tax liability in the event it was registered.

We hope that the COVID-19 crisis would serve as a reform accelerator, opening the government's eyes to the fact that reform is imperative and the need to bring it to the forefront.

CIPE: *FEI has been one of CIPE's principal partners on a number of initiatives, including the business reform agenda and transitioning to a cashless economy to name a few. In this regard, if you were to suggest a specific initiative or program that CIPE should support in the coming period, what would that be?*

Tawfik: There are several issues that need addressing and can benefit from our collaboration; it is not possible for any organization to single-handedly tackle such issues. Our collaboration with CIPE on the national reform agenda should continue; the national agenda is a living document, which needs to be continually updated to serve as an effective roadmap for the government to choose areas that it would like to focus on and set as priorities. If I am to recommend one area that can benefit from our collaboration it would be supply chain analyses. There is a critical need to carry out comprehensive sector-specific supply chain analyses to identify gaps, both the technical and procedural; these analyses can then be used to develop a clear policy framework geared towards deepening domestic production. So far, in the absence of comprehensive supply chain analyses, slogans rather than facts dominate the domestic production deepening conversations. Many countries, such as South Korea, Malaysia, Taiwan, Vietnam, and China, have already carried out such analyses, years ago. These analyses will help assess Egypt's competitiveness and identify the areas best targeted to improve its competitive advantage in order to attract investment. Thus, CIPE could provide support for carrying out of comprehensive supply chain analyses in one or two critical sectors; a sector-specific supply chain analysis can be a very revealing document and can serve as a starting point, a prototype, for future supply chain analyses that the government undertakes in other sectors.

CIPE: *Thank you very much for your time, and we appreciate your thoughtful insights and leads you shared with us.*



Tarek Tawfik is Vice Chair of the Federation of Egyptian Industries, and the Egyptian Center for Economic Studies; the Managing Director of Cairo Poultry Group, and the Chairman of: the International Co. for Agricultural Development, Americana Egypt for Cold Storage Facilities and El Hashimeya for Land Reclamation. Tawfik is the former Chairman of AmCham Egypt, and a board member of the Chamber of Food Industries, the Investment Authority (GAFI), Federation of Chambers of Commerce, and the Food Export Council. He is also a member of Egypt – US Business Council.

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