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The Path to a Successful Economic Transition in Egypt

What the United States Can Do to Help

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Introduction and summary

The palpable optimism that permeated Egypt in the immediate aftermath of the revolution after the ouster of longtime autocrat Hosni Mubarak is starting to fade as more than a year later, the country continues to struggle with an unwieldy political transition and a stagnant economy.

With a new parliament and soon a new president, Egypt will have a government in place, but that alone will not be enough to promote lasting stability in the country. Stability depends on whether Egypt's economy can generate enough "just jobs"—complete with appropriate remuneration, good working conditions, and opportunities for average citizens to make a better life for themselves and their families—to give the nation's new democracy the underpinning it needs to thrive.

Egypt's economic transition has been slow and turbulent since the fall of Mubarak in February 2011. Egyptian tourism decreased by a third in 2011,¹ and foreign investors are still hesitant to spend.² Meanwhile, Egyptian consumers continue to be squeezed by high international food prices.³ These developments exacerbate longstanding problems of unemployment, inefficient tax collection, and inefficient government subsidies.⁴

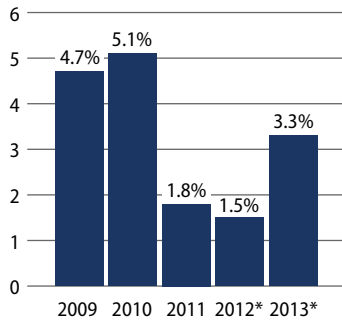
Egypt's overall unemployment rate stands at 10.4 percent, and official estimates suggest that the youth unemployment rate is 25 percent, but both these figures underestimate the actual scale of joblessness. These numbers don't capture the many people that show up in labor statistics as being employed when in reality they are underemployed, sharing low-productivity work, or are in other forms of irregular employment. Such individuals are not gainfully employed.⁵

Overseas remittances from Egyptians working abroad also play a big role in Egypt's economy—they accounted for 3 percent of GDP in 2010. But turmoil in other Arab Spring countries will affect remittances to Egypt, as migrant workers in Libya, for example, are forced to return home.⁶ (see Figure 1 on the next page for an economic snapshot of the Egyptian economy)

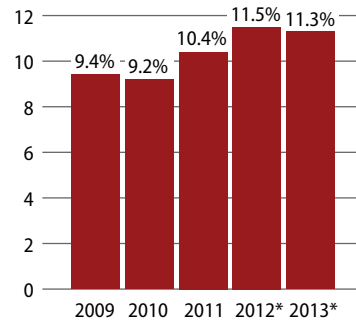
FIGURE 1
Egypt: Economic snapshot

Key indicators

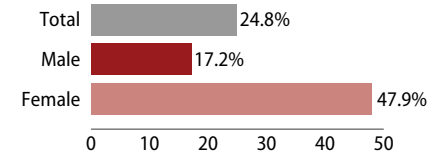
GDP growth



Unemployment



Youth unemployment (2007)



*Projection

Sources: GDP:2009 and 2010 from World Bank World Development Indicators database; 2011, 2012, and 2013 from IMF's World Economic Outlook April 2012; unemployment: 2009 from World Bank World Development Indicators database; 2010 from IMF's World Economic Outlook April 2011; 2011, 2012, and 2013 from IMF's World Economic Outlook April 2012; youth unemployment: World Bank World Development Indicators database, 2007 is most recent available year.

As the new Egyptian government transitions into power it must deliver economic reforms that will create quality jobs for all Egyptians. This will not be an easy task, but it is a task that above all is up to the Egyptians themselves. As U.S. President Barack Obama said in May 2011, “It’s not America that put people into the streets of Tunis or Cairo. It was the people themselves who launched these movements, and it’s the people themselves that must ultimately determine their outcome.”⁷

Yes, Egyptians will ultimately be responsible for their own long, difficult, and inevitably messy transition, but the United States—one of Egypt’s biggest donors—has been a political and economic player in Egypt for decades. Its role in helping create an economic environment that is conducive to the creation of good jobs in Egypt is now more important than ever.

What’s at stake goes beyond the Egyptian people’s aspirations for a better life. How Egypt—the most populous country in the Arab world—deals with its turbulent transition will set the precedent for other nations, including Bahrain, Yemen, and Syria. This critical political and economic transition will affect the Arab-Israeli conflict and bears major strategic implications for the United States and the international community.

Yet because of the the uncertainty about Egypt’s political and economic future, the United States and the international community are unsure about how to engage with an Egypt in flux. The country’s scrambled transition involving the Supreme Council of the Armed Forces, the Muslim Brotherhood, and the mostly secularist revolutionaries who helped lead the revolution are engaged in a tug of war for power and legitimacy that leaves the United States unclear about whom to deal with.⁸ The United States finds itself caught between the need to rebuild a diplomatic relationship with the country’s leaders, whoever they may ultimately be, and the desire to gently nudge Egypt toward greater democracy.⁹

This uncertainty becomes even more pronounced against the backdrop of popular anti-Americanism in Egypt. The Egyptian people have not forgotten America’s long relationship with the Mubarak regime.

The United States can and must reconfigure its relationship with Egypt’s new leaders and the Egyptian people at this critical juncture. Harnessing U.S. assistance, economic aid, and trade to help Egypt create jobs and put its economy back on track will help further both of these goals—promoting political and social stability while working to quell anti-American sentiment. Specifically, the United States must:

- Divert some of its military aid toward economic assistance
- Support public-sector reform to put people back to work in the short run
- Support private-sector development, especially small- and medium-sized enterprises, to create jobs in the medium-to-long term
- Rethink the U.S.-Egyptian trade relationship
- Help Egypt work toward creating a better educated, more skilled, and equal labor force
- Mobilize support and coordinate assistance with the international community to reduce waste and maximize effectiveness

This report explores how each of these steps can be initiated by the United States.

This report is based on research, interviews, and the findings of the Just Jobs Network¹⁰ seminar, “Just Jobs for Growth and Stability,” held in Cairo in May 2011. This seminar brought together policy experts, government leaders, social entrepreneurs, and union representatives to discuss how to create an economic environment conducive to job creation and economic growth in Egypt after the Arab Spring. Continued research, analysis, and conversations with policymakers

and experts in Egypt and other Arab Spring countries have helped inform this report since the Network's initial seminar.

We believe our findings can lay the groundstones for a new economic relationship with the Egyptian government and its people that is fair and equitable, helping the nation solidify its democratic gains with jobs-based sustainable and inclusive economic growth.

Key U.S. assistance programs for Egypt

State Department

- **Middle East Incentive Fund:** a proposed \$770 million fund to promote economic and civic development in the Middle East and North Africa
- **Middle East Partnership Initiative:** a program that offers support to nongovernmental organizations and individuals in the region who are advocating reform

U.S. Agency for International Development

- **Economic Support Fund:** a fund that promotes economic and social development

Overseas Private Investment Corporation

- Investment insurance and reinsurance, debt and equity investments, and guarantees for private investment in Egypt

Treasury Department

- **Deauville Partnership:** an international platform for assisting transitioning Middle East and North African countries; focus on debt relief and financing

Office of the United States Trade Representative

- Egypt and the U.S. trade representative agreed to develop an action plan to boost Egypt's integration into the global economy in January 2012
- Egypt and the United States signed a bilateral investment treaty in 1986, which entered into force in 1992

Congress

- **Egyptian-American Enterprise Fund Act:** would establish a private, nonprofit organization to promote economic development and anticorruption efforts in Egypt

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