

# Fueling Egypt's Development? Is It

By Khaled Fouad Sherif  
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A CLOSE look at the annual report of the National Bank of Egypt (NBE) reveals some interesting facts about the Egyptian economy. One of these is that the economy, in real terms, has not been growing over the past three years, achieving only 3 percent growth at best during that period. In addition, at this time of economic stagnation, the labor force is growing at 2.8 percent a year.

Over the past decade, one obvious finding of the statistics shown by the annual report is that the growth of the labor force has been much greater than the growth of the economy as a whole. If this pattern persists, one would expect to see serious indications of unemployment. Such is already the case in a number of Arab countries, the first among them being Algeria, but this trend is not obvious in Egypt, which for one reason or another has thus far not shown signs of chronic unemployment.

I would attribute the absence of a serious unemployment problem in Egypt to the strength of the so-called informal economy, which has given jobs to those individuals who have not been able to find work in the formal sector. The informal sector has, however, kept much of Egypt's growth invisible. During the 1980s, Egypt's labor force grew at a rate approaching 1 million per year, while real gross domestic product (GDP), as calculated by the NBE, increased by insignificant amounts.

Yet no one can find evidence of significant unemployment in Egypt, regardless of the government's diminished desire to hire new graduates, and the stagnancy of the formal private sector, which proves that the new

entrants to the labor force did find jobs.

I would conclude that the statistics of the NBE underestimate Egypt's GDP by at least 25 percent by failing to take into consideration the huge amounts of business done off the record. Officially, the economy grew by 2.2 percent in 1989, but there are indications that the true figure is probably much higher.

## A Point Of View



It is likely that the unreported growth took place in small businesses, which were born into the informal economy. Anyone navigating Cairo streets sees part of this, in the form of thousands of street salesmen offering everything from plastic garbage bags to paper tissues.

But the informal economy includes a great deal of manufacturing as well. My favorite story on this subject involves a public-sector company which noticed that a small, unregistered business was one of its best customers. Upon investigating, it found that the firm was buying its corn flakes, repackaging them and selling them as chicken feed in the informal sector, reaping a profit. Even Hong Kong or Mexico haven't produced entrepreneurs as ingenious as this!

True, microenterprises in the informal sector account for only part of all unreported economic activity, and there are a variety of reasons for this. Predominant among them are the high taxes and bureaucracy which have

forced many medium-sized businesses to hide the level of their activity and refrain from reporting their sales.

Most small businesses have a serious disincentive to grow: why move from a tax-free status in the informal sector to a situation where you have to pay 45 percent in taxes in the formal sector, which is worsened by the need to deal with nightmarish red tape? Most small businesses that have grown considerably still prefer to remain in the informal economy, where they can operate problem-free rather than facing government coercion.

But small businesses run into the problem of selling their products to consumers or bigger companies which require receipts for their records or for tax purposes. In addition, these informal businesses are kept out of the export market, since they represent activity which the government considers to be illegitimate.

Emerging companies of this kind cannot issue stock since they operate on an unrecorded basis. Thus they find it difficult to find 'formal equity' in the process of expansion.

Consequently, much of Egypt's economic activity remains tied up. Small informal-sector companies lose growth prospects, Egypt underestimates its real growth rate and loses the potential for additional economic growth, and the government loses tax revenues.

There is one bright spot, though, which is that the informal sector has succeeded in absorbing the overflow of the rapidly growing labor force.

As long as this is the case, the government should not worry about the level of informal activity. Moreover, the growth and vitality of the informal sector in Egypt underline one major point: the invisible hand does a lot more to aid growth than the government's own efforts to spur it.