



**Summary Notes of the Roundtable:
Paradigm Shift in Industrial Policy Design:
Implications for Egypt**

Tuesday, April 28, 2015, 07:00 PM – 09:00 PM

The Egyptian Center for Economic Studies, the Federation of Egyptian Industries, and the International Labour Organization organized a roundtable on: Paradigm Shift in Industrial Policy Design: Implications for Egypt

Speaker: Irmgard Nübler, Senior Economist, International Labour Organisation

Moderator: Omar Mohanna, Chairman, ECES

1. Opening Remarks by Mr. Omar Mohanna

The departure point for Egypt's new industrial policy is the need to accelerate economic transformation, grow private investment and create decent jobs for Egyptians, especially the young.

We all witness, in Egypt and globally, five very important and rapid shifts in the global markets that I think must be taken into account when we design an industrial policy for Egypt:

- Erosion of corporate profit margins. Competition has become fierce as trade barriers come down and technology provides broader choices to customers and consumers. Global firms are compelled to reduce margins to compete and cannot reduce costs
- Supply chains have become increasingly dis-aggregated, enabled by communications technology. Specialization is key.
- Protectionism is on the rise and regionalism is taking over as a preferred form of free trade arrangements
- Manufacturing is moving from a model of stocks to a model of flows, with implications for firm cost structures and business models.

- Declining labor cost arbitrage across countries as a competitive edge, leading to more automation, which clearly explains the jobless recovery of the global economy.

2. The main takeaways of Dr. Nubler's presentation

- Due to the fact that GDP growth in many countries did not translate into better jobs, higher wages, better living standards and development, industrial policy (IP) is back on the global policymakers' agendas, both in developed and developing countries.
- In practice, IP has been adopted under different names in Egypt and other countries such as export promotion strategy, clusters' development, targeted investments, or promoting green economies.
- A new framework for designing IP has been developed which distinguishes between productive capacities and capabilities.
 - ***A Country's productive capacities*** are reflected in the endowment with production factors – physical capital such as machines and equipment, human capital embodied in workers, and infrastructure. Technological and structural transformation is achieved through investment in productive capacities in new economic activities and industries.
 - ***A Country's capabilities*** are the enablers of the labour force, the enterprises and the society of a given country to invest, innovate, solve problems, upgrade technologies, differentiate into higher quality industry segments and develop new industries.

- The scope of IP is not manufacturing exclusively, but is economywide including agriculture and service sectors.
- A successful IP achieves a variety of objectives that lead to productive transformation; including productivity growth; job creation and employment for social inclusiveness; and learning to generate capabilities for change. To achieve these objectives, it is important to develop a stakeholders' consensus on the long-term vision of economic and social development.
- In light of countries' experiences, a better understanding of the strengths and weaknesses of the IP has emerged. The following lessons were distilled:
 - a. Pro-active government policies are central to boosting economic dynamism and to influencing economic structures. Market forces cannot alone produce structural transformation.
 - b. No one-size-fits-all policy approach. Policy makers need to develop country-specific strategies, taking into account the country's conditions, comparative advantages and initial capabilities.
 - c. Four important lessons for sound design and implementation of IP:
 - i. **Targeting.** The question nowadays is not whether to target or not, but how to achieve the most effective targeting. One methodology for targeting relies on identifying industries that produce tradable goods and services with high exports and share similar sets of national capabilities. Such a methodology allows the leveraging of capabilities and knowledge common to

those industries in a way that enables production of more advanced products and services. ILO is currently working on a targeting mechanism that draws on this methodology.

- ii. ***Comprehensive, integrated and coordinated policy package.*** A coherent set of policies should be put in place where IP should be aligned with macroeconomic, other sector policies and trade policies.
- iii. ***Promoting learning and building capabilities.*** *First*, it is important for a country to develop a training system, which provides training in a wide range of different occupations. This set of skills can be combined to produce new products. *Second*, education policies are important for building the knowledge structure of the labour force. Although countries tend to focus on educational levels, it has been proven that it is the educational attainment structure of the labour force that shapes the industrial structure.
- iv. ***Institutional and policy design.*** Like all policymaking, IP has both a technocratic and political economy dimension. This requires specific forms of social dialogue to build consensus on policy formulation and support effective implementation. IP mobilizes not just business leaders and public policymakers, but also leaders from academia, trade unions, and civil society groups. In order to have an effective IP, coordination mechanisms such as

national competitiveness and sectoral councils should be involved in IP design and implementation.

3. Highlights of the discussion:

- For Egypt to balance between short term objectives (job creation and social justice) and long term ones (IP strategies), it is important to focus on technologies that are employment-intensive. Also, upgrading products and investing in activities with high job content of growth would help stimulate product demand and mobilize employment.
- Egypt's weak education system and restrictive vocational training that is job/task specific led to a lack of knowledge diversification. Other country experiences have shown that apprenticeship is an effective solution for skill shortages, resulting in more labor force mobility across different activities.
- Egypt suffers from massive bureaucracy in the implementation process, hence a clear set of rules shall be followed, in addition to definition of very clear standards, and the provision of incentives are needed.
- A well-targeted industrial policy is needed for Egypt to mobilize demand for middle skilled workers, particularly in the manufacturing activities that have shrunk over the past decade relative to other economic activities, both in its shares of employment and wages.
- Looking forward, Egypt needs to identify the potential shifts in the global market and adjust its export strategy to meet future global demand.
- Focusing in on the capabilities of each governorate in Egypt would help design a spatially balanced IP.
- A country's culture is an important aspect in shaping its IP. This is reflected in different forms of corporate social responsibility and varied degrees of entrepreneurial spirit.