Thawing Capital Strikes:

Private Investments in Egypt and the State.

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Capital and labor are the forces that bring to life the current economic system, *capitalism*. In day-to-day discussions, it is common to hear about workers' strikes and their impact on an economy or industry. However, capital strikes can be just as dangerous and volatile to the health of entire economies. Capital strikes occur when capitalists deem the return on their investment is no longer acceptable or somehow jeopardized. Global financial highways and international shipping allow capitalists to peruse the globe for a suitable investment environment. Due to the global nature of capitalism, governments of developing countries find themselves in a 'Race to the Bottom' trying to create the most suitable environment to attract investments. To do so, the governments seek to provide infrastructure (physical and legal), cheap labor, stability, and ease of capital flow (to allow the capitalist to easily exit the market in case the return is no longer deemed worth it). Due to the inability (lack of capital) or unwillingness (lack of suitable returns/environment) of local capitalists, these governments rely on foreign capital.

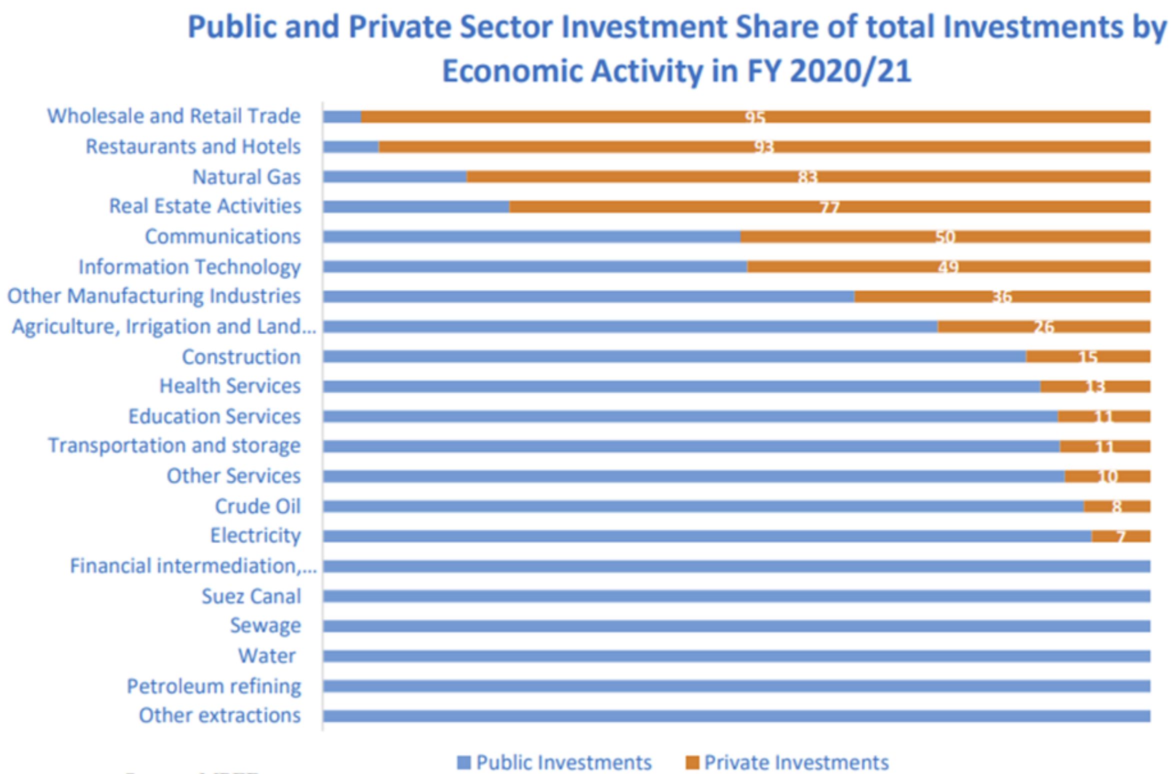
In the case of Egypt, foreign capital enters the economy in the form of bank deposits, i.e., financial capital. Egypt's economy offered some of the, if not the highest, real bond yield (the returns that a bond investor earns from interest payments after accounting for inflation.) from late 2018 to 2022 (Magdy, 2021). The foreign capital enters Egypt's financial sector and is then used to fund investments/ local consumption while expecting interest payments in return. Gross fixed capital formation is one of the best gauges of investments from a macro-economic level. The World Bank defines it as:

> "[L]and improvements (fences, ditches, drains, and so on); plant, machinery, and equipment purchases; and the construction of

> roads, railways, and the like, including schools, offices, hospitals, private residential dwellings, and commercial and industrial buildings." ("Glossary | DataBank", n.d.)

Due to the 2008 Financial Crisis, the Arab uprisings of 2011, and the COVID-19 Pandemic, Egypt's gross fixed capital formation (GCFC) as a percentage of GDP has seen an overall decline according to data available from the World Bank. In 2008, GFCF as a percentage of GDP stood at 22% overall, from which the private sector contributed 14%. By 2021, that figure reached 12%, from which the private sector contributed 3%. GCFC as a percentage of GDP had reached a post-2008 peak in 2019. In 2019, it had reached 18% overall, from which the private sector contributed 8% ("Gross fixed capital formation (% of GDP) - Egypt, Arab Rep. | Data", 2022). These figures indicate two relevant findings. Firstly, The Egyptian private industry has greatly diminished its investments in the Egyptian economy. (It is important to note that while private investment in Egypt has declined as a percentage of GDP, the private sector share in GDP has continued to rise, reaching 73.3% in 2021, up from 62.3% in 2010.) Secondly, the foreign capital entering Egypt, through bank deposits, primarily funds local Egyptian consumption rather than capital formation. When combined with increasing Egyptian household consumption as a percentage of GDP (from 72% in 2008 to 89% in 2021), these findings indicate the presence of substantial capital in Egypt that focuses on non-productive endeavors.

Therefore, there is a need for the Egyptian government to enact changes and policies that would employ Egyptian wealth and capital in productive ventures. Firstly, there is an unwillingness among the Egyptian private sector to invest in certain types of projects, as seen by the following:



Source: MPED

The projects that the Egyptian private sector invests in generate substantial revenue, as seen by their share of GDP rising to 73.3%. However, as shown by the charts above, the private sector focuses on investments in industries that do not require significant investments into fixed capital to generate revenue. In 2021, the Egyptian private sector's investments were 30% of total investments in the country (Ministry of Planning and Economic Development, 2022). The Egyptian government hopes to increase that figure to 65% within the next three years, as the government plans to exit from 79 sectors and reduce investments in 45 others. Such policies are in line with the State Ownership Policy Document. The Egyptian government plans to focus more on the citizens' social care and ensure the presence of more robust safety nets ("PM:State Ownership Policy Document sets Egypt's approach toward assets", 2022).

Mohamed Al-Bahi, a board member of the Federation of Egyptian Industries, has stated that the industrial sector does not receive adequate financial support from the banking sector. There is a great deal of reluctance from the banking sector to invest in industrial projects, and they impose harsh guarantees on manufacturers when they do finance their projects (Al-Aees, 2022). From Jan. 2022 – March 2022, leasing companies in Egypt funded contracts with a total valuation of EGP 21.869 billion. On the one hand, contracts that dealt with real estate and land financing were 77.58% of all leasing contracts. On the other hand, machinery & equipment, heavy equipment, and production lines reached 9.74% (Financial Regulatory Authority, 2022).

Following the aforementioned points, the Egyptian government needs to find a policy or procedure to encourage the flow of significant financial investment into the industrial sector. As mentioned at the onset of the paper, if capitalists do not find suitable gains, they will either withhold investments or end up investing elsewhere. In addition to the lack of financing opportunities, governmental hurdles hamper the industrial sector in Egypt. The most recent example is the decision by the Egyptian government to halt the importation of goods through documentary collection. Instead, the banks only facilitate imports through letters of credit. This decision by the government was criticized by the heads of the Federation of Egyptian Chambers of Commerce, the Federation of Egyptian Industries, and the Egyptian Businessmen's Association ("Importers, get your letters of credit ASAP", 2022). Such decisions are taken without the consultation of these institutions, indicating a significant rift in the dialogue between decision-makers and stakeholders within Egypt's economy. Such a rift will, in turn, impact the possibility of improving the financing of specific sectors.

This paper recommends the development of a robust dialogue between the Egyptian decision-makers and the affected industries. This will allow the government to systematically know what hurdles manufacturers may be dealing with. Additionally, this will alleviate concerns of potential investors in the Egyptian economy as it will show that decisions are made through open channels and not haphazardly. After all, predictability is one of the primary safeguards that investors look for in an economy.

The Egyptian government has attempted to develop those channels, such as creating a digital platform to discuss the government's latest State Ownership Policy Document ("Egypt launches digital platform for discussion on State Ownership Policy Document - Politics - Egypt", 2022). However, such an approach is not comprehensive enough and only tackles a single document/policy. In order to establish a more robust conversation, there is a need to rethink urban governance in Egypt to foster more conducive channels of dialogue. Urban governance would take on a state-theoretical perspective rather than a purely entrepreneurial/investor perspective. This effectively means that "entrepreneurial endeavors are highlighted by a series of state actions, discourse, and self-images. Rather than thinking *laissez-faire* entrepreneurialism". China's model of urban governance, in which local state-level bodies have hardened fiscal responsibility and decision-making autonomy, has turned local governments into industrial firms (Wu & Zhang, 2022). In the case of Egypt, these local governments can function as industrial consultancy firms. The more localized the level of the governmental organizations are, the greater their scope. These local governments can then act as a channel between business owners (from multiple sectors and varying sizes) and the central Egyptian state and work towards an over-arching state developmental goal.

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