

# THE VANTAGE POINT OF AITEC

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## Deep and Comprehensive Free Trade Agreements Between the European Union and Egypt: what is at stake?

By Lala Hakuma Dadci

### Report on the current economic situation in Egypt

The protests that started in Tahrir Square in January 2011 were largely spurred and sustained by longstanding economic hardships and very limited economic opportunities for Egypt's youthful labor force. Due to political instability, the Egyptian economy has continued to weather significant economic challenges. The Egyptian economy contracted by 0.6% in 2011 dragged down by sharp declines in investment and tourism. Fixed investments fell by 15% in 2011, and are likely to remain muted in 2012. While tourism, a key driver of the Egyptian economy, originally falling sharply in 2011, has shown modest signs of recovery during the first quarter of 2012.

Egypt faced a complete economic collapse, and, despite a narrow escape, deep economic schisms persist and the vast majority of Egyptians are still economically disadvantaged. Youth unemployment rests at about 25%, a dangerous situation given that 60 percent of the population is under the age 30. The disparity between the formal and informal sectors of the Egyptian economy has become all the more apparent. The massive Egyptian informal sector presents the newly elected and controversial Egyptian government with equally massive opportunities and risks. According to a recent IMF estimate, Egypt's informal sector accounts for some 35% of all economic activity and employs roughly 40% of the labor force. If institutionalized and organized, not only could it support and develop the economy but it would become a source of legal employment, providing people with employment security and legally guaranteed work-related benefits.

The economic issues are deeply linked to the political stability and the new government's commitment to solve issues related to unemployment and growth. The first significant economic action undertaken by the Muslim Brotherhood has been a negotiation for a 4.8 billion US dollar loan from the International Monetary Fund (IMF) considered absolutely crucial aid needed to solve the multiplying Egyptian economic and social issues. The results of this negotiation would have not only determined Egypt's standing economic policies, but would have had lasting effects on Egyptian economic sovereignty. To date, The IMF has withheld any discussion and decision regarding the loan pending the return of political stability in Egypt.

# Deep and Comprehensive Free Trade Agreements Between the European Union and Egypt What is at stake?

## Overview of the Key Sectors of the Egyptian Economy

### *The service sector*

The service sector is the largest and the fastest growing in Egypt, its share in Egyptian economy reaching 45% of GDP and 63% of total employment in 2009/2010<sup>1</sup>, while 50% of all exports were the service exports. Some of the most important components of the service sector in Egypt (in terms of competitive advantage) include transport, computer and information, travel and personal, cultural and recreational services (tourism).

1. *The service sectors, trade policy, and the challenges of development in the Arab region, ANND publication*

European companies are currently seeking to capitalize on this growing service sector in the Egyptian economy, calling for both the sector's liberalization and their right of establishment. This call for facilitated access to the Egyptian service sector could lead to European control, if not dominance, of market shares, largely eclipsing many potential domestic benefits.

One of the most important facets of the service sector is "its role in building of human capacities and skills"<sup>2</sup>, namely the education and health sectors. These two sectors, classified as services, are unequivocally important to a developmental approach of economy as they represent and guarantee basic human rights for the population. Thus the service sector is essential to the development of the Egyptian people, society, and economy.

2. *The service sectors, trade policy, and the challenges of development in the Arab region, ANND publication*

Trade liberalization agreements with the European Union places Egyptian national interest in a precarious position. Through deliberate exclusion of the opinions of the national government while orchestrating liberalization agreements, the European Union uses its position of relative economic power to mold the terms of these agreements to its own benefit. Liberalization of trade agreements often occurs on European terms, which translates as the import and often domination of European strategies, interests, and objectives in foreign markets. Thus, the economic interests of the Egyptian state, and the Egyptian people, are poorly met and often unwillingly sacrificed for the benefit of the Europe.

The lack of human capacity to be able to understand the service sector, its interactions with other sectors and its dynamics is yet another explanation for the failure of good policy regarding services. Ultimately, the national population suffers as they cannot benefit from basic services the state has forfeited to external interests.

### *The industrial sector*

Industry is the second largest sector of the Egyptian economy after the service sector, accounting for 37% of GDP in 2011<sup>3</sup> and around 15%<sup>4</sup> of the labor force (heavily concentrated in Cairo and the Nile delta). Petroleum and petroleum products are the foci of Egyptian industrial activity, which are largely dependent on world's oil markets. Other important industrial activities include steel (Egypt boasting one of the largest steel industry in all of Africa and the Middle East) and construction, which is mainly driven by government-funded infrastructure and modernization projects.

3. <http://data.worldbank.org/indicator/NV.IIND.TOTL.ZS>
4. <http://www.nationsencyclopedia.com/economies/Africa/Egypt-ECONOMIC-SECTORS.html>

The EU finds itself particularly interested in commercial cooperation with regard to the development of Egyptian infrastructure and energy systems, as investments in these sectors are expected to be particularly lucrative. The European Union desire for financial profitability in foreign commercial relations is coupled and magnified by a core European objective: energy supply security.

*The agricultural sector:*

The Agricultural sector represented 13.7% of Egyptian GDP in 2010, a sector that has long been neglected. The previous regime, in particular, preferred to invest in non-agricultural projects in arable lands, sometimes leading to dispossession for farmers, an issue that remains important in post-revolution Egypt. Furthermore, the question of subsidies posits itself as a central issue for the agricultural sector. The 5.5 billion US dollars provisioned by the state for food subsidies per year scarcely ameliorates the situation of poverty in Egypt (it often fails to reach the poor), and leads to huge wastes and over consumption<sup>5</sup>. These subsidies have been the source of contentious debate between Egyptian policy makers, foreign trade partners, and domestic farmers and consumers. Egypt can only reach economic and agricultural auto-sufficiency by decreasing its dependency on foreign imports and ineffective subsidies.

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5. <http://www.reuters.com/article/2011/09/28/us-egypt-food-idUSTRE78R2SD20110928>

Mr Gamal Bayoumi, chief Egyptian negotiator in the Association Agreements (AA) between the European Union and Egypt has noted that the agricultural chapter (which proposed the overture of the Egyptian agricultural market to European companies) has been the key point of these Agreements. Currently, the EU has taken a particular interest in the liberalization of processed products and fisheries. This strategic move is undoubtedly a way of expanding the EU market into Egypt, as the neglected and underdeveloped Egyptian agricultural sector is not capable of producing high-quality processed agricultural products. This strategy stifles any significant Egyptian investment in agricultural technology development, while simultaneously leaving the agricultural market vulnerable to domination by imported European products.

Egypt currently maintains a competitive advantage due to its middle moderately skilled, labor-intensive activities in agriculture, manufacturing and services.

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### Overview of Egypt's trade agreements with foreign partners

#### *Free and Preferential Trade Agreements between Egypt and the Arab Nations*

- 1990: Tariff and Trade Agreement between Egypt and Libya.
- 1991: Trade Agreement between Egypt and Syria.
- 1994: COMESA
- 1998: Free Trade Agreement between Egypt and the Tunisian Government.  
Free Trade Agreement between Egypt and the Moroccan Government.  
GAFTA Agreement  
The Executive program to support trade between Egypt and Jordan.
- 1999: The Executive program to support trade between Egypt and Lebanon.
- 2001: The Executive protocol to establish Free Trade Area between Egypt and Iraq.

#### *Trade Agreements with other partners*

- 2001: Association Agreements
- 2002: Egypt and the European union signed the “partnership agreement”
- 2003: European neighborhood policy  
Euromed Free Trade Area (see the Sustainability Impact Assessment [here](#))
- 2004: Qualifying Industrial Zones (between Egypt, the US and Israel)

Since 2006, Egypt has been engaged in four rounds of plurilateral negotiations (with the US, the EU, Australia, Canada and India) aimed at further liberalizing trade in telecommunications, computer, postal and courier, distribution, environment, energy and construction sectors.

Egypt is part of three regional agreements aiming at liberalizing trade in services, which are under the Pan-Arab Free trade Agreement (PAFTA) (agreement signed in 2003), the Euro-Mediterranean negotiations (agreement signed in 2006) and the negotiations among the COMESA countries.

- 2007: Free trade agreement with EFTA (European Free Trade Association) countries.
- 2007: Agadir agreement
- 2008: Egypt started bilateral negotiations for trade liberalization in services with the EU.
- 2010: Egypt-MERCOSUR agreement (promoting reciprocal trade and investments)

## Deep and Comprehensive Free Trade Agreements Between the European Union and Egypt What is at stake?

### The Deep and Comprehensive Trade Agreements

The Deep and Comprehensive Free Trade Agreements (DCFTAs) have been on the EU agenda since December 2011, but negotiations between both parties have yet to begin.

The DCFTAs represent an extension of the Association Agreements (AA) between Egypt and the European Union signed in June 2001. Their contents are very similar: all chapters included in the DCFTAs are also present in the AA (free trade arrangements for industrial goods and agricultural products, and liberalization in services, farm goods, and other social non-implemented chapters).

The drastic similarity between these two agreements is indicative of implicit power relations. The DCFTAs objectives are to reinforce the strategies stated in the AA, an attempt to secure provisions from the prior agreements that have not yet been met, and further tie the Egyptian economy to European dependence.

Thus, it is critical to fight against this renewed tentative to secure European interests at the expense of Egyptian people.

First, it seems obvious that trade agreements negotiations cannot continue as they are. Without a clear economic or social agenda, the Egyptian government runs the risk of falling victim to dominant and developed European interests during negotiations. Trade agreements made thus far are so comprehensive that no strategy exists to protect key Egyptian sectors, a protection that must exist to ensure economic success, the safeguarding of basic human rights, and the continued development of the Egyptian economy. This phenomenon is succinctly explained by an ANND publication on free trade agreements in the Arab world:

*“Through the negative-list approach (no flexibility to chose the sector to liberalize) [for the Free Trade Agreements], developing countries lose the ability to protect certain sectors in which they do not know they have advantage or of which they do not realize the importance of protecting. They even cannot protect sectors that do not currently exist, but would come into existence in the future and could become highly important for the development process of the country.”<sup>6</sup>*

Negotiations have always been, and will continue to be, an unbalanced relationship where EU negotiators follow the EU agenda and interests, while Egyptian negotiators act as phantom partners only following the EU’s dominant economic paradigm.

Second, if we take the example of the service sector, the Egyptian government does not have the necessary expertise (or will-power) to make appropriate decisions and internal policy reforms to ensure adequate access to health-care, education, safe water, and sanitation. Civil society

6. Free trade agreements in the Arab region, ANND publication <http://www.annd.org/english/data/publications/pdf/12.pdf>

organizations (CSO) continue to advocate in an effort to make civil authorities aware of the dire situation, with hope to inspire proactive solutions to procure basic and necessary services procurement. If domestic officials lack the capacity and skill to provide basic services internally, it logically follows that their efforts to liberalize service markets to profit foreign interests will violate and trample on the rights of the national population. Liberal ideology implies that private sector should theoretically follow the rules of the market, where the private sector raises prices to the highest possible level, provided that it corresponds to an actual demand. When it comes to basic services, this logic is fundamentally flawed. It implies that companies (mainly foreign companies) who export superior foreign services would be free to offer higher prices given a domestic market that has an exponential demand for these services. This translates to an economic disparity, making health (for private hospitals), education (for private schools), or access to water (for water distribution companies) accessible only to the richest Egyptian consumers. The poor would not only go without access to superior imported services, but face a situation where the domestic government is not providing adequate alternatives. In short, this economic system of service disparity threatens to tear Egyptian society into further immutable inequality. The State should be responsible for securing basic access to its population, and Egypt should thus reject EU trade policies that reinforce this unjust and unequal system.

### *Transparency*

Egyptian civil society, and even some officials working for the governmental agency, “Support to the Association Agreement Program” (under the Ministry of International Cooperation), are not aware of the upcoming DCFTAs negotiations. This further indicates that these agreements have been designed in secret, without the participation of any Egyptian officials and with no consideration of Egyptian interests. Testimonies from a high level Egyptian negotiator and from Egyptian employees involved in the AA implementation process have demonstrated that all economic and trade agreement initiatives between the EU and Egypt have always been initiated by the EU, never by Egypt. Some complaints have risen from the Egyptian side of the negotiations explaining how the EU has consistently positioned itself as the presiding authority during all trade discussions, relegating Egypt to the status of a guest, if not an observer. This diplomatic and ideological problem wreaks of neocolonialism and imperialism.

## Deep and Comprehensive Free Trade Agreements Between the European Union and Egypt What is at stake?

### Case Study: Al-Shehab Institution and the Consequences of Trade Liberalization

7. <http://www.shehabinstitution.org/>

Al Shehab Institution<sup>7</sup> works with the inhabitants of Ezzbet El Haggana, an informal settlement of several hundred thousand inhabitants close to the Cairo International Airport. Al Shehab has disseminated a rights-based and democratic conception of development, which calls for the guarantee of basic human rights, such as education, health (especially in regard to HIV and childhood protection) and economic rights (especially for women).

The first concern Al Shehab Institution delineates when it comes to the DCFTA (and FTA in general) is the very real possibility of a reduced state expenditure on health, education and social support programs. Indeed, the logic of market liberalization implies the cessation of state-involvement in public services, preferring to abandon all services activity to market forces. Consequently, the government forfeits the political ability to make important societal decisions, such as, implementing policies to ensure health insurance for all. The DCFTAs represent an incarcerating loss of political sovereignty in Egypt because the government risks severe castigation if it moves to protect its national interests through regulatory measures as detailed by Cermak, Canonne, and Knottnerus in their work “EU DCFTA: A threat to the aspirations of the ‘Arab Revolutions’”:

“The EU’s trade agreements typically focus on liberalisation and deregulation and do not recognise the right to regulate in the interest of labour, the environment and other public policy/sustainable development goals. [...]In fact, proposed regulatory measures that would appear to impinge on trade and investment rights as laid down in the DCFTAs can be challenged before a WTO tribunal or an investment tribunal, which could lead to compensation payments to investors of hundreds of millions of Euros, at the expense of public budgets.”

M.Cermak, A.Canonne, R.Knottnerus, EU Deep and Comprehensive Trade Agreements: A Threat to the Aspirations of the “Arab Revolutions”.<sup>8</sup>

8. [http://www.s2bnetwork.org/fileadmin/dateien/downloads/Stand-alone\\_text\\_on\\_Arab\\_DCFTAs\\_final\\_in\\_layout\\_plus\\_authors.pdf](http://www.s2bnetwork.org/fileadmin/dateien/downloads/Stand-alone_text_on_Arab_DCFTAs_final_in_layout_plus_authors.pdf)

Reduced expenditures on public services are the logical consequence of further commitment to neoliberal policies. This reduction directly impacts the well-being of the Egyptian population, particularly inhabitants of poverty-stricken areas such as Ezzbet el Haggana, serving to only worsen their situation, which is already dramatic given they do not receive any support from the national government.

The health sector is not egalitarian in Egypt; much of the population cannot afford health-care due to the privatization of health services and the absence of public health insurance. Egypt's social security applies exclusively to formally employed persons, and given that informal work represents about 40% of the Egyptian economy, a huge portion of the population lacks basic protections. Private hospitals (where foreign companies are significant share-holders) only treat “customers” who have the exorbitant amount of money to finance high-quality medical services. While public hospitals, on the other hand, offer very low quality health-care, a logical result of the government's refusal to invest in institutions that lack high profitability. This system reinforces inequalities and disparities between poor and wealthy citizens, as poor households (already characterized by low income, poor environmental conditions, lack of access to insurance and financial systems) become even more susceptible to illness and subsequent loss of income. This has been called the “cycle of health and poverty”<sup>9</sup> that is tacitly reinforced by trade liberalization.

9. *Poverty and health sector inequalities, WHO bulletin:* [http://www.who.int/bulletin/archives/80\(2\)97.pdf](http://www.who.int/bulletin/archives/80(2)97.pdf)

One of the fundamental roles of the state is to ensure the general population's right to health-care. Through further trade liberalization by way of the DCFTAs, this essential government role will be sacrificed in the pursuit of unequal

and unfair trade policies that profit one side almost exclusively. This is clearly a human rights violation; pursuing these agreements will have profound and serious consequences for the general health of the Egyptian population.

Further, educational services are also of great concern for Egyptian citizens who find themselves in a situation of extreme poverty. Privatization of educational services has led to a rise in relative costs to access high-quality education at international and private schools, as well as the general and dramatic decline in the quality of education provided at public schools. In the Global Competitiveness Report (published by the World Economic Forum), the quality of primary education for Egypt is currently ranked at 131 out of 142<sup>10</sup>.

10. [http://www3.weforum.org/docs/WEF\\_GCR\\_Report\\_2011-12.pdf](http://www3.weforum.org/docs/WEF_GCR_Report_2011-12.pdf)

Education is the basis of development. A reduction in investment can have dramatic effects for Egyptian youth because it reinforces a cycle of poverty about education. Only wealthy youth can afford decent primary, high school, or university education, leaving the youth from poverty-stricken backgrounds in a disparate lack of access to adequate education, preventing them from the possibility of formal employment. Not only would public schools suffer from a significant decrease in government investment, but the programs seeking to rectify this injustice, undertaken by civil society organizations or NGOs, will also suffer from a similar lack of financial support. Al Shehab is currently working on providing educational services for disadvantaged youth, and has the expertise needed to formulate necessary demands from the state. Understanding the importance of education, it will continue to participate in initiatives lobbying the government to reinvest in the future of Egypt through strong policies that reform and increase investment in national education.

Finally, issues regarding decent working conditions, rise in unemployment and in informal work are other troubling possibilities that stem from the DCFTAs. The liberal market economy underpinned by the DCFTAs would determine prices based on the forces of international supply and demand, completely ignorant of the security offered by minimum wage or social insurance, thereby relegating the worker to an inferior pawn of the marketplace. Essentially, given that multinational companies would otherwise favor European workers, skilled and non-skilled Egyptian workers would have to accept a certain level of job insecurity and low wages to remain competitive and employable. Workers' rights to health-care, social services, and education will be sacrificed for profitability.

The rise in unemployment and informal work, predicted by the Euro-Mediterranean Free Trade Area Sustainability Impact Assessment, will overexpose those suffering the most from poverty to otherwise avoidable casualties and grave circumstance, all the while lacking every social or legal protection.

These overarching and compounding consequences of the DCFTAs will have a direct impact on women. Given that in Egyptian society the husband is the primary source of income, women may be forced to find a way of compensating potential job losses, possibly through informal jobs. Although this new free trade agreement threatens to push more women into informal and dangerous work environments, Al-Shehab is working to prepare the Egyptian population through diligent programs aimed at protecting and empowering women.

## Deep and Comprehensive Free Trade Agreements Between the European Union and Egypt What is at stake?

### Al Shehab Strategy and Positioning

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These aforementioned negative impacts of further trade liberalization proposed by the DCFTA will have a profound effect on Al Shehab and the people it is working with. As a civil society organization working with and for vulnerable Egyptians, Al Shehab stands firmly opposed to such one-sided and unjust trade agreements.

Al-Shehab institution derives its legitimacy from its long-term work with the exposed and disenfranchised population of Ezbet el Haggana, and is perfectly positioned to expose the sweeping injustices posited by the DCFTAs. Their testimony is invaluable in constructing the case to universally denounce and condemn these trade agreements.

Al-Shehab Institution plans to encourage a comprehensive trade policy approach that incorporates a vision of workers' rights and the grave violations on people's rights present to both national and international economies. Through a vast communication effort, the organization hopes to provide relevant information to help construct national legislation and international trade/commercial policy that serves the best interests of all trade partners without forfeiting the right of every employee to decent working conditions.

In short, it aims to pressure the government not to sign agreements that could have damaging consequences on Egyptian population.

Al Shehab plans to collaborate with other organizations already working on free trade agreements (especially DCFTAs) to pressure the national authorities' agenda for trade policy. In an effort to demonstrate the grass-root effects of global policies, Al-Shehab plans to be present at all official government consultations with civil society. Their visible voice and social capital will lend itself to a general call for transparency in regard to free trade agreements between Egypt and any other foreign power.

Looking forward to the World Social Forum, Al Shehab plans to collaborate with other NGOs and CSOs advocating for women worker's rights, in order to establish a common position and to prepare an action plan for an international advocacy and awareness campaign.