State-Business Relations and Investment in Egypt

This study, based on comparative research conducted in Egypt, shows that informal relationships between key policymakers and investors have played an important role in raising levels of investment and fostering economic growth. These relationships based on Common Interest between Policymakers and Investors (CIPI) form the central concept of the research.

The authors conduct an analysis of four sectors (food, furniture, communications and information technology) to see how relationships between policymakers and investors emerge and develop, and what impact these relationships have on investment. The research uses a combination of qualitative and quantitative data, and this is set against the historical consideration of the main trends in private industrial investment in Egypt since the 1970s. The research reveals the limitations of rules-based governance (although a good long-term goal) and the importance of relationship-based governance to promote investment if it is based on common interest and common understanding of the challenges ahead. This research is presented from the starting point that a substantial reduction in poverty requires an acceleration of economic growth, which in turn requires increased investment.

The authors experiment with a political approach which puts the relationships between policy makers and investors centre stage. The proposition is that, when their interests are aligned, obstacles to investment and growth are more likely to be removed. There is a lot of resistance – in the research and policy making community – to the idea that such an alignment of interest can do good. What dominates is the suspicion that such alignments are abused to pursue narrow interests. The authors acknowledge this danger but are also open to examine the growth-enhancing effects that can come from close cooperation between policy makers and investors.

They find that government-business relationships differ across the sectors analysed and over time, and these relationships have an effect on regulations, policies and ultimately investments. They also find that the way the private sector is organised influences whether the effects are inclusive or exclusive to that sector (or sub-sector).

CIPI was not the sole or direct cause of investment but was an effective transitional arrangement for overcoming barriers to investment and growth. By conducting research in two old (well-established) and two new sectors, the authors offer a comparative analysis of successful and not so successful sectors, in order to examine more closely how CIPI operates.

Key research findings:

- Common interest and common understanding of the challenges to be addressed are the key features of effective public-private relationships. Where relationships reach this stage, they can play an important role in increasing investment and growth.
- CIPI does not cause increases in investment directly but plays a critical role in unleashing the profit potential of the sector by removing blockages. In the old sector (notably the food industry), it did so by helping to remove supply constraints.

Informal relationships between key policymakers and investors have played an important role in raising levels of investment and fostering economic growth.
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- CIPI played a key role in enabling Egypt to establish new communication and information technology industries. It helped the country to overcome the initial technical, financial, security related and mental barriers to entry.
- In both the old and new sectors, the willingness to take action translated into capacity to do so because the alliance between policy makers and investors extended into the ‘engine room’ of economic decision making.
- The way the private sector is organised has a major influence on whether the investment enhancing effects are inclusive or exclusive.

Concluding paragraph:
CIPI does not solely cause private investment increase, but plays a critical role. It provides proxy governance (measures tailored to the specific needs of the (sub-) sector) and facilitates difficult politically sensitive decision-making. The close alliance of policymakers and investors is important, as is the organisational capacity of the sector which can result in broad-based benefits. CIPI is an effective transitional arrangement, enabling business to contribute to policymaking. CIPI is often rooted in informal, social relationships and a common professional background, although this is not a necessary condition. However, common interest and common understanding are necessary conditions for an effective public-private growth alliance.

- Improving the investment climate is worthwhile, but informal alliances can induce investments more swiftly.
- Reasons for policy failure need to be sought in the public and private sectors.
- Broad-based private sector organisations are more likely to spread the gains.
- Public-private working groups are useful temporary vehicles for working out solutions to major challenges.
- Experiences of institutionalising state-business relations in the form of Competitiveness Councils deserve research.
- In the light of the global financial crisis, it would be useful to analyse the role that public-private alliances and informal relationships play at key economic turning points.

Key policy lessons / implications of research

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