

## **DEALINGS WITH THE PRESENT STAGE OF THE EGYPTIAN ECONOMIC SYSTEM**

**Phd. Shawky Said Mohamed Aly**

El Majala University, Egypt

shwkealsaaed@yahoo.com

**PhD Liliana MANEA**

Athenaeum University Bucharest, Romania

lilyanamanea@yahoo.com

**PhD. Alaaeldin Abdellatif Abdelrahman Ibrahim**

El Majala University, Egypt

shwkealsaaed@yahoo.com

### ***Abstract***

*This article aims to put into the light the actual stage of Egyptian economy and tries to find an analytical conclusion how to deal with the economic problems trend. Our research begins with a time description of this part of the global economy and diagnoses for future amelioration of the Egyptian situation. The idea developed throughout is a better understanding of the economic trend, with a view from inside, as any Egyptian citizen is interested to achieve one of the best way for his life and how to manage within our days' transition period. Therefore, our article present a form of how to manage to analyze the economic situation and is looking for a suitable answer on this matter.*

**Key words:** *Egyptian economy, global economic analysis, Zakat mission, Islam economy*

**Classification JEL:** *M410*

### **1. Introduction**

Egypt's economy is the second largest economy in the Arab region after Saudi Arabia, with a GDP of 500.9 billion dollars (2010), and the second in the Africa region, after South Africa and the tenth in the Middle East in terms of per capita income.

Egypt's economy is characterized as one of the most versatile economies of the Middle East countries, where agriculture, industry, tourism and services sectors involved very close proportions in the Egyptian economy.

The number of workforce in Egypt, about 26.1 million (2010) is distributed in the public services (51%) and the agricultural sector (32%) and the industrial sector (17%). So, the Egypt's economy depends mainly on agriculture, and since it has entered within the Suez Canal, the increasing revenues are coming from tourism and cultural production, oil and remittances from foreign workers, as more than three million Egyptians working abroad, mainly in Saudi Arabia, and the Gulf region such as the United Arab Emirates and Kuwait as well as the cash remittances resource coming from Egyptian workers in the United States, Australia and Europe.

## **2. Economic reports about economic growth in Egypt**

The reports issued for the economic growth in Egypt, whether local or international are not so clear and unitary for everybody understanding. This misleading seems to be caused on different views of the growth sources, where ones are focused on paying tribute to the growth in absolute terms rates and the others not.

The first source of this growth, which was mostly marginal or rentier, at a time when declining the relative importance of the productive base, whether industrial or agricultural Egyptian economy, so that Egypt currently lacks to become a production base commensurate with the having resources, especially the human resource. The former regime, drew its attention to the service sectors and the production sectors, an attention directed to housing luxury, and the development of beaches and the construction of resorts at the time were imported by Egypt a large part of consumer goods, machinery and equipment and food, which is reflected in the huge deficit in the Egyptian trade balance.

The second problem is the distribution of this growth, or rather who benefited from this growth? This growth has been on the supposed expense of justice in the distribution of income between different citizen's categories, not for much of the Egyptian people in the former regime, which took over the class, and a too wide gap became between high groups and poor groups, as has been recognized by international institutions such as the IMF reports. According the IMF reports the economic growth in Egypt were not accurate, because they are focused on the growth rates in absolute terms, without considering the distribution of standards or justice arising from this growth considerations.

On the financial level, Egypt is facing another challenge linked to the deficit in the public budget, which in some cases up to 9% of GDP, a very high percentage, and impose on Egypt, in light of the weakness of the tax by Al-Qaeda to resort to borrowing, whether local or foreign, no doubt that this deficit continued to progressively means that the current growth in public debt local whether or external will not be sustainable, and expects that this

deficit tends to be a clear rise in the period after the revolution. Before that Egypt were working to raising public revenues and rationalize expenditures to control the growth in the general budget. Despite the very extensive tax structure that is being within Egypt, but the revenue tax are low in general, does not exceed 15% of GDP, which in this form is less than the level achieved in most countries of the developed world, including the developing, which reflects the fact that taxes are not recovered by payment, concluding that there is tax evasion practiced widely in the State by financiers and with the help of the government apparatus, which imposes and gets the tax, therefore we cannot find a tax efficient and appropriate effectiveness.

On the other hand, Egypt is facing a traditionally sustained deficit, aggravated by the balance of payments, particularly in the trade balance (exports of goods and imports of goods), where the system is unable compensate by foreign exchange earnings from exports so that to cover the needs of Egypt's imports from abroad. And even though the balance of transactions dealing with imports and exports of services is on surplus, but this surplus, unfortunately, is not enough to cover imports in the trade balance gap, so Egypt resort has to borrow on an ongoing basis to cover the deficit in the balance of payments.

Due to the limited production base Egypt, have been and is still, for long periods of widespread inflationary pressures widely, which helped to deepen the weakness of the general revenues of the state and that caused the continuing shortfall in the state budget, which is being partly funded through the new monetary issuance base, which feeds the inflationary pressures.

In view of the exceptional circumstances experienced by Egypt it is expected to deepen the pressure even more in the next phase, and unfortunately the fight against inflation in this particular time will be the task extremely difficult, given the domestic and international economy, where food prices are rising globally and locally are alarming.

### **3. Business environment**

Facing the business environment in Egypt we consider a serious obstacle the spread of corruption which became widely negative and affect the allocation of resources and how they are distributed among the various parties in the state operations, as corruption has become a threaten for investors' appetite for investment in Egypt, particularly within the foreign investment. According to reports issued by Transparency International in order to decline in Egypt and the World Order in the fight against corruption, which, no doubt, is one of the most important challenges facing Egypt in the future is how to win the battle against corruption in depth in all parts of the state administration. We have to consider here, especially with the low

salary level earned by workers in the state and ignoring the former regime for these real ongoing basis, nobody thinks about their work hard or how to think to improve the conditions of these workers, since these workers should have a living measure somehow, so it seems to be natural that bribery and other forms of administrative corruption has spread on a large scale.

Not at least, we found as an issue the poor infrastructure, poor level of a most serious challenges facing Egypt in order to raise the standards of production and competitiveness. Areas, such as health, education, water, electricity, roads, transport, communications, airports and ports (and so on), are in need of dramatic improvement upgradation now too.

There is no doubt that Egypt needs to invest in the infrastructure but its intention is at weak level, a task that will require huge budgets may not Egypt can meet by itself at the moment, so Egypt needs to be helped by international and regional financial institutions to increase its ability to invest in the infrastructure required for growth, and that remains in the Egyptian economy one of the most important constraints on its progress and growth and raise competitiveness levels.

This is the main facing Egypt now, and undoubtedly there are other urgent problems, such as widespread poverty, and the spread of the culture of profit and quick gain and the proliferation of bureaucratic and centralized decision-making and other that shackle the Egyptian economy and prevent the launch forward to become Egypt in the ranks of emerging countries in the world such as Malaysia, North Korea, in terms of resources and possibilities, but the basic problem facing the Egyptian economy is in poor targeting of resources and management process.

#### **4. Unemployment present and future challenges**

One of the most serious challenges facing Egypt now and in the future, is high unemployment, for many reasons, such as lack adequate current education strategy to the requirements of the labor market, particularly university education. On the other hand, the investment operations that currently take place in the Egyptian economy is not creating enough jobs for new entrants to the labor market, and that was supposed to investment strategies focus on intensive use of the element of work activities.

Many new entrants to the labor market from all sources currently spend long periods in the event of unemployment in search of work, who do not find very often, and in front of these pressures forced many young people either to emigrate abroad or to accept jobs that do not comply with their qualifications and skills, or work in the informal sector of the Egyptian economy, which represents a huge waste of resources spent by the state on rehabilitation operations.

The problem faced by policy makers in Egypt is that the proportion of the young people is too high, and year after year the number of new entrants rises to the labor market, and all the process of creating an additional function requires the need for spending an investment depends on what it is called in economics labs, marginal capital/labor, any required level of capital spending to create additional jobs. Taking into account the current levels of unemployment, dealing with the problem of unemployment in the future will require the need for huge investments which exceed the possibilities of the Egyptian economy therefore is, no doubt, that the stability of Egypt's economic future will require a need to create a sufficient number of productive jobs for millions of unemployed now, and entrants new to the labor market, no doubt that this task will not be easy, and requires a fee of integrated development plans in the various productive sectors of the Egyptian economy accompanied by effective policies to attract foreign investment in the intensive use of labor component industries.

#### **5. Islamic investments in markets**

Islamic investments in global markets are volatile from day to day, however they are subject to no less than \$ 10 trillion of funds, no less Arab investments to global markets for \$ 6 trillion, and this figure does not interfere with it the money that had been smuggled from Egypt or Algeria or Libya, knowing the heads of these countries and their leaders, as they say that the Arabs have lost about five trillion dollars in the global financial crisis in 2008 are instruments and stocks and bonds in the international companies that have collapsed because of the crisis. The global financial crisis have been affected also the Islamic banks, but in less than others, mainly because Islamic banks do not work with an usury system and paper assets but works with real assets. Not at all, even some Islamic banks already suffered some depression because of the crisis, such as commercial banks because they are part of the global market.

However, Islamic banks are not adversely affected by such as banks usurious because the real financial dealings Islamic banks are buying real assets and sells real assets and invests in real investments and projects, not paper next to its entry in the posts of investment.

With the growing success of Islamic banks the future will be for the banks and there are many indications that confirm this, including the direction of the United Arab Emirates to transform banking institutions to Islamic banks and the decision of the French Legislative Assembly, the establishment of Islamic banks next to the Islamic banking experience in Britain, Germany and the United States of America. Islamic funds invest in all fields and every state is different from the other in the areas of investment funds, for example, Gaddafi Libyan assets invested in gas

stations, and Saudi Arabia, for example, invests in several areas such as food and agricultural land, as in Toshka, Egypt, and Kuwait to invest in the construction of airports as in Marsa Alam in Egypt or in Europe villages tourist. Unfortunately, despite the abundance of Arab money they do not have a specific policy to serve the Arab issues, just as the Jews did in their investments in the United States, but the Arabs do not invest their money according to specific policy, but for all financial profits. Most Islamic banks' investments are invested in Islamic countries because investment methods respond to the majority of Muslims, and even Western countries when they opened Islamic banks do not think they have succeeded, such as the success of Islamic banks in Muslim countries since Islamic environment keep pace with the objectives and principles of Islamic banks, and therefore there are a lot of people putting their money in Islamic banks.

#### **6. Proposal to solve the economic problem**

Theoretically, the Islamic economics could solve all the economic problems plaguing Egypt now, but this did not take place except for the absence of Islamic economics and not to apply it.

If Islamic economics is applied in Egypt, this not means that there would be no poor, and there would be no unemployment and what has suffered Egypt's monopoly, injustice and corruption. Because the principles of Islamic economics is fighting with all these problems, that no means that Islamic economics came to show these problems. For example the problem of poverty did not appear in the nation applying Islamic economics because of the principles of the Islamic Zakat legislated by Allah Almighty to enrich the people, then is not a mission to give to the poor money consumed in a day or a month or even a year, but the task of Zakat man sings a whole lifetime, it is the issues raised in Islamic thought what they give to the poor, you give out the adequacy of the year or give out the adequacy of the age and opinion is right and correct in this is to give the poor the adequacy of life in the sense that the poor if you take Zakat time will not come back to take them again unless an exception because the rich are also exhibition of poverty. Therefore, the basic principle is that the poor who took Zakat time will not come back to taken but will attend to pay. The question is can Islam through Zakat to provide capital to use for the poor people.

In the book of Imam al-Nawawi is written: The Zakat mission is to enrich people adequacy of old, where he says: Aattiyān (e.g. the poor and in need people) from poverty to riches, Fbaia herbs (any vendor horseradish and parsley) gives ten dirhams (with a dram in his day he bought a sheep), and vendor gems gives one hundred thousand dirhams or more, and was mourning or a carpenter or a merchant gives his or her tools as the capital of his trade. That way, the poor rich, but not the money, but of his work and

his effort, and this is for people who know the different crafts, but who was clumsy (i.e. does not have the ability to learn any profession is not known craft) said Imam al-Nawawi : buy a stake in menial or menial old enough for him and the whole yield stopped him and allow him to sell, this is the treatment of Islam to the problem of poverty, and therefore there cannot be poor in light of Islamic economics as may apply Umar ibn al-Khattab for workers Zakat, but in the current circumstances can the poor become rich by finding the work to him, whether in a factory or a farm, even if not the owner of the two through the establishment of the state to build factories and hire people in.

Standard differentiation between people in Islam is the work, not over the possession of the funds, caliph Omar bin al-Khattab said: It is like a man length and width, ask parents craft? If it is said not to look down, and the Prophet Muhammad, peace be upon him say: "What never eat a good food to eat from the work of his hand, but God's prophet David was eating from his hand". In our times, no one Zakat application properly applied as legislated by Islam, but in the early Islamic period there was not poor because Zakat were enough people and overflowing their need, and the public in Nowadays no country applies Zakat system except only two states. Sudan Malaysia and Saudi Arabia have their own system of Zakat in terms of demanding rich by determining the value they pay Zakat and take them and leave them half of the other half of Zakat to increase their knowledge to those who know of the poor, in the sense that 50% of the funds paid Zakat of the state, and 50% paid by the rich who want the por. In Egypt are large sums of money Zakat collection already, but these amounts are not organized and are not spent on society as a whole.

Must be Zakat relationship between the state and citizens so that the State collects zakat from the rich to spend on projects that mobility of the poor to the rich level, it is possible that this will be achieved through the establishment of a Zakat in all Islamic and Arab country. If the collection of Zakat funds from both are obliged to use the proceeds to build agricultural, industrial and commercial projects that serve the poor of these countries are making them able to earn enough money for their needs, and this method applied by the State of Qatar through the Zakat Fund, which is a good example of the application of Zakat proper and useful manner, and most countries Zakat system applied to have involved regardless of Zakat funds in legitimate recipients institutions.

### **Conclusions**

If the Islamic economics solve all Egyptian economic problems is just a question. Only to give Islam a chance to apply that does not means the problems are solved. Reminding after the January Egypt revolution it seems

that this idea already floated many factional demands and strikes of teachers, doctors and drivers of public transport. And all of these, because they have an Islamic thought but have no patient even to improve the country's economic conditions, especially if they are given promises and program timetable to increase salaries and achieve their demands, noting that the salary increase is not through borrowing by the state from different countries and institutions, but by increasing production.

Islamic economic strategy it seems to be a solution, and Egypt can through the application of the principles and parameters of Islamic economics to solve its economic problems, as the Egyptian people already passed over all forms of the economy from socialism to capitalism, to a mixed economy and all failed in the face of their problems, why not give a chance for Islamic Economy to apply its rules to address the economic problems of Egypt, where the economy has all the Islamic ingredients that achieve economic growth and social justice. It remains as a question for a future reality applicability.

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