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Breeze of reform out of Egypt

COMMENTARY

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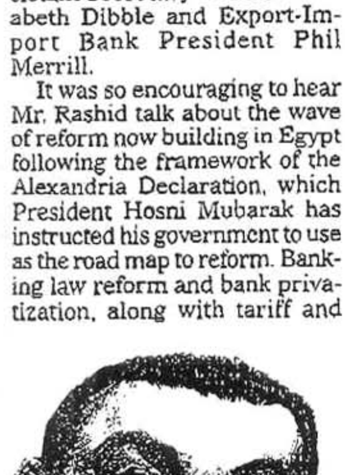
I was recently privileged to take part in a dinner co-hosted by the president of the Aspen Institute, Walter Isaacson, and one of the Middle East's most progressive ambassadors, Egypt's Nabil Fahmy. The dinner was in honor of Egyptian Minister of Foreign Trade and Industry Rashid Mohammed Rashid, who was introduced by the distinguished Alexandria businessman Mohamed Mansour, president of the Mansour Group. Also there were such distinguished guests as Mark Brzezinski, Deputy Assistant Secretary of State Elizabeth Dibble and Export-Import Bank President Phil Merrill.

It was so encouraging to hear Mr. Rashid talk about the wave of reform now building in Egypt following the framework of the Alexandria Declaration, which President Hosni Mubarak has instructed his government to use as the road map to reform. Banking law reform and bank privatization, along with tariff and trade-law reform, lead the way.



Hosni Mubarak

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A couple of months ago, the average tariff on imported goods was reduced 40 percent — down from 14.6 percent to 9 percent. Moreover, Mr. Mubarak has sent the parliament a package of tax reforms reducing the personal income tax from 40 percent to a flat 20 percent and the corporate profits tax from 32 percent to 22 percent. These efforts have made believers of Egyptian investors, with the stock market up 60 percent in three months.

With a new prime minister — former Information Technology Minister Ahmed Nazif — and backed up by a new finance minister, Youssef Boutros-Ghali, previously the foreign trade minister, the Mubarak regime has an economic team that understands the power of private ownership and liberalizing markets to raise Egypt's standard of living and prosperity. Currently growing 3 1/2 percent yearly, Egypt's economy needs to grow at 7 1/2 percent to absorb all the new labor force, reduce unemployment from 12 percent and raise the standard of living from the current $1,100 per capita income.

The Declaration of Alexandria provides a vision for political, economic and social reform throughout the Arab world. In economic reform, it seeks reversal of a number of challenges in the Arab world, including declining economic growth, declining share of international trade, declining share of foreign capital flows, increasing unemployment and, consequently, increasing poverty. Mr. Mubarak believes economic growth and prosperity will make broader social and political reform possible.

With poverty and lack of opportunity comes social friction and political tension that can cause the gears of society to seize up and progress to grind to a halt.

So Egypt's major economic reform effort is seen as part of the larger, broad front to launch the largest Arab nation into the forefront of progress.

In addition to unilateral trade reforms, the Egyptian government is negotiating with the United States to certify specific Qualified Industrial Zones in Egypt where goods jointly produced by Egyptian and Israeli firms would enjoy duty-free entry to the U.S. market. Egypt also has made a renewed effort to negotiate a bilateral trade agreement with the United States that opens U.S. markets to Egyptian products not unlike the recently concluded U.S.-Jordanian agreement, led by King Abdullah, who is to visit Washington next month.

Both Egypt and Jordan have free-trade agreements with Israel, a very hopeful sign. With serious reforms in Egypt and Jordan, we have a predicate for a kind of 21st century Marshall Plan of aid to win the hearts and minds in the Islamic world if accomplished with the input of the Arab world.

The only cloud I see in Egypt's reform plan is the decision to float the currency, which caused an 11 percent fall in the foreign exchange value of the Egyptian pound. Floating currency, especially of smaller economies, can easily be swamped by the high seas of the global economy. Much better for a currency such as Egypt's to be anchored securely to a strong and stable currency prominent within its own trading region — in this case the euro.

What a breath of fresh air since I was in Egypt last January with Peruvian economist Hernando DeSoto. The winds of change and seeds of hope sweep across not only the Nile Valley, but also Afghanistan with the election of President Hamid Karzai. Egypt appears headed along the course Mr. DeSoto urged of expanding private property rights and formalizing the economy by bringing extralegal entrepreneurs out of the shadows.

The current estimate is that roughly 8 million Egyptians hold as much as $30 billion in assets in extralegal enterprises. By reforming taxation, deregulating the financial services industry, lowering barriers to international trade, rationalizing internal property law and legal administration and pursuing a stable currency, Egypt has a chance to create an "Arab miracle," just as Germany and Japan did following World War II, and the Asian tigers did more recently.

But we all know these were not miracles — just the sound application of first principles: low taxes, sound currency, limited regulation and free trade. That is why it can, and will, work in the Arab world as well.

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