

UN EGYPT COVID-19 INSIGHTS SERIES

DISRUPTIONS TO GLOBAL VALUE CHAINS (GVCs) AND INDUSTRIAL POLICY

SUMMARY OF INTERNATIONAL EXPERT GROUP MEETING

No. 5 /2020

1. Overview

This webinar was the second workshop of a series of events organized under the umbrella of UN- Inter-Ministerial task force on Covid-19 economic Impact. The event was organized, on 24th of June 2020, around two main panels. The first one broadly looks into the impact of Covid-19 on GVCs, while the second panel focuses on various possible responses and solutions to disruptions, including that of Industry 4.0.

2. Key vulnerable groups or sectors in focus

Manufacturing Sector is the focus of this webinar. The manufacturing value added in Egypt is estimated at 16.2% in 2018 (World Bank, 2018). This sector employs 3.3 million, of which 90% is male and 10% is female (ILO, 2018). The total non-petroleum exports reached USD 24.9 billion (GOEIC, 2018).

3. Key insights from the knowledge product

Due to COVID-19, there are two risks for developing countries.

1) Dropping out of GVCs: Global players are looking for new product mixes and sourcing inputs from less distant suppliers. Reshoring by developed countries and increased local and internal sourcing are likely scenarios. Thus, developing countries may become increasingly excluded from participating in GVCs.

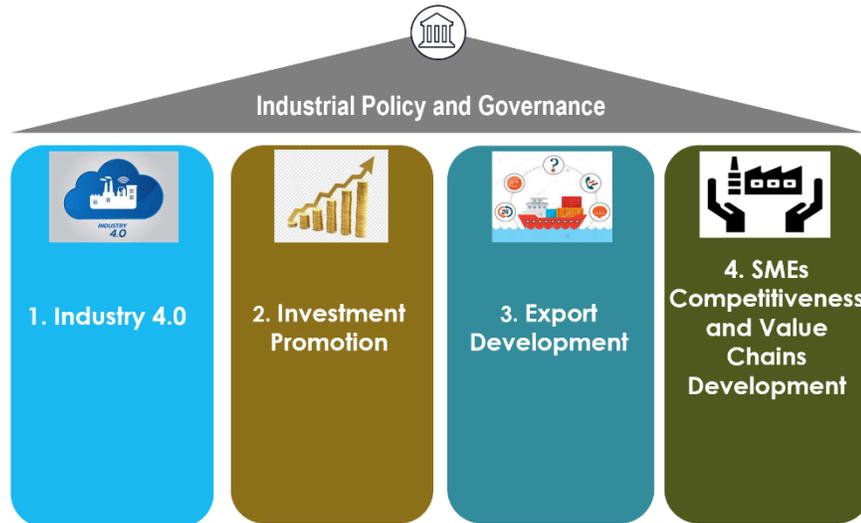
- **2) Premature deindustrialization:** Developing countries might remain providers of raw materials. More advanced developing countries, too, might fail to attain higher levels of industrialization. Countries that have already started industrializing may be forced to veer off that path prematurely due to COVID-19.
- Egyptian industrial sub-sectors dependency on GVCs vary from one sector to another, so the effects of GVCs disruptions on them will not be the same.
- Impact of COVID-19 is not limited to industrial production, but it will also affect productivity. Furthermore, the implications of COVID-19 will not only be in the short run, but a lot of implication will happen in medium and long run, as the industrial sector is well diversified and characterized by a big share of informal economy, strongly driven by local consumption.

- There are many variables, such as investment, demand, remittances and income that are witnessing big changes in their patterns. Uncertainty is the most dominant feature of the crisis and more investigation is required to better understand how the recovery would look like (e.g. V, W, L or other shape). There are two main risks, namely dropping out of industrialization and premature deindustrialization.
- The crisis is a good time for reform. Government can embark on structural reform of the industrial sector. Taxation and customs system shall be restructured to support industrial development.
- Competitiveness and productivity enhancement of firms should be our strategic focus. Also, industrial development should be sustainable by considering issues of resources efficiency and circular economy
- The need for an industrial policy is increasingly urgent. It should be evidence-based and should be supported with enhanced capacity to implement it. It should introduce principles of circularity, innovation and technology development.
- Industry 4.0 is a reality, so we have to get ready with skills and infrastructure.
- There are structure problems of economic weight of SMEs, so more support is needed for them to enhance their contribution to industrial development.

4. Policy Implications

The Policy implication include five main domains:

- 1- **Industrial Policy and Governance:** As an overarching strategic domain, it aims at establishing an efficient policy setup and governance structure for manufacturing support.
- 2- **Industry 4.0 (I4.0):** which defines the route to technologically develop the Egyptian manufacturing sector through mainstreaming the I4.0 technologies, with a particular focus on competitive sub-sectors.
- 3- **Investment Promotion:** which focuses on building capacities of investment promotion agencies and attracting investment to the manufacturing sector.
- 4- **Export Development:** it addresses reforming the export support programs and facilitating access to international markets.
- 5- **SMEs Competitiveness and Value Chains Development:** which builds on the technical assistance to enhance manufacturing capabilities of SMEs with focus on inducing **sustainability measures** and **green practices**, as well as increasing the role of manufacturing sector in **regional inclusiveness**.



5. Programmatic relevance

- Upgrade & Develop the Network of Technology and Innovation Centers, affiliated to the MoTI.
- Design and Introduce a New National Industry 4.0 Curriculum to TVET.
- Promote Industry 4.0 Technology Integration into the Core Industrial Sub-sectors.
- Enhance Capacity of Investment Promotion Institutions to Change the Composition of FDI Towards Tradable Sectors with Emphasis on Attracting Tech. industries.
- Support Egypt's Integration in Africa and Arab Countries through the creation of a dedicated "Egypt- Africa Investment and Trade Promotion Office".

6. Partners and Donors

This webinar is organized by UNIDO in partnership with the Ministry of Planning and Economic Development.

7. Link to the full knowledge product:

Attached

8. Name and email address of a focal point for the knowledge product

Ahmed Rezk, UNIDO National Programme Officer in Egypt; a.rezk@unido.org

Ahmed Kamal, Policy Support Consultant, UNIDO Egypt; a.alhelewa@unido.org