

# Stepping up structural reforms to improve Egypt's business climate

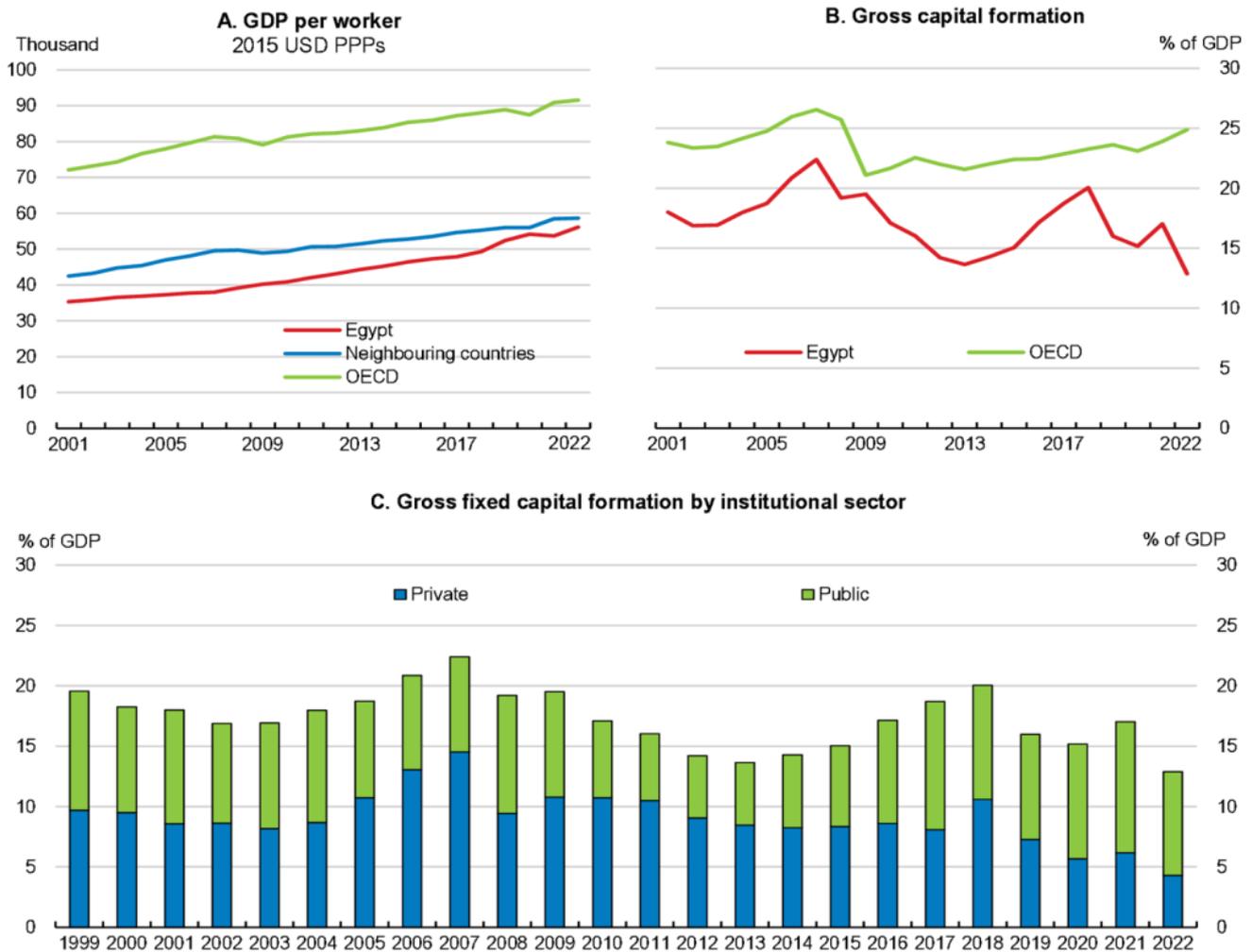
Category: Egypt, Private sector, Uncategorized  
written by oecdecoscope | July 16, 2024



by Ania Thiemann, Economist and Competition Expert, Competition Division.

Egypt's challenging business climate is holding back productivity and therefore also living standards. Labour productivity is still far below the OECD average (Figure 1), with low overall investment and a declining share of private investment in the total. Low investment in innovation, and research and development (R&D) also contributes to low productivity growth, as Egypt spends less than 1% of GDP on R&D. Market mechanisms, such as business entry and exit, and growth of the most efficient firms, appear to be weaker than in many similar emerging markets. Underlying these facts are deep-seated structural causes that impede market competition, investment and efficient resource allocation. These barriers stifle the country's potential for long-term sustainable growth and restrict the development of a robust private sector. To ensure sustainable economic growth, as set out in Egypt's National Structural Reform Programme, thorough policy reforms are required that can boost market competition. Regulatory and trade barriers, as well as a dominant state presence need to be addressed to revive private sector activity.

**Figure 1: Low output per worker is related to low investment**



Note: Data for Egypt in all three panels refer to fiscal years (from July of indicated year to June of the following year). Neighbouring countries refer to Algeria, Israel, Jordan, Lebanon, Morocco, Tunisia and Türkiye.

Source: IMF, World Economic Outlook database – October 2023; OECD, National Accounts database; Ministry of Planning and Economic Development; and OECD calculation.

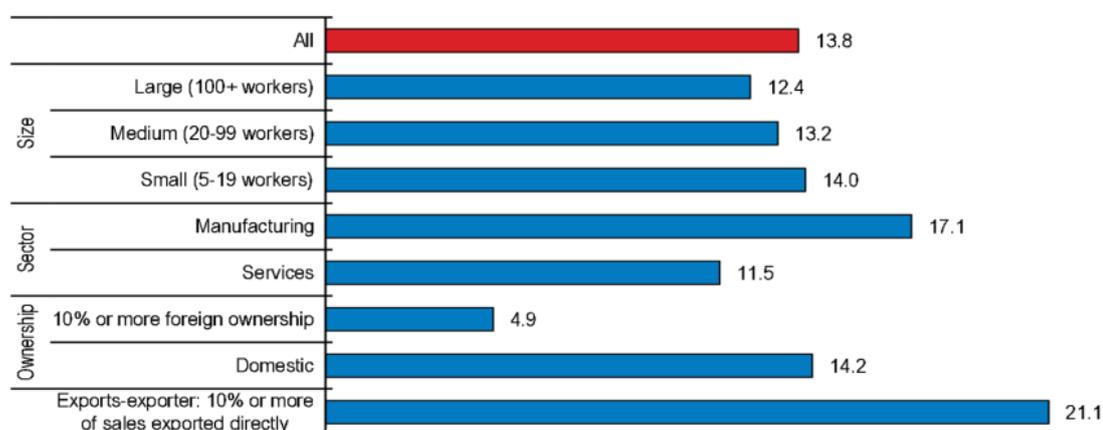
### Removing regulatory barriers to enhance market entry and expansion

A central and long-standing challenge is the heavy regulatory burden that acts as a barrier to market entry and expansion, while also promoting informality. Complex and lengthy processes for obtaining business licenses and permits during the post-establishment phase constrain both domestic

businesses and exporters (Figure 2). Despite recent reforms, the administrative load remains heavy, stifling Egypt's business dynamism compared to regional and global averages, with comparatively low entry and exit rates. Moreover, overall regulatory quality remains low, reflecting lengthy and opaque decision-making processes and implementation.

**Figure 2: Business licensing is a constraint on domestic businesses and exporters**

Percentage of firms in Egypt identifying business licensing and permits as a major constraint, 2020



Note: Share of respondent firms out of 3075 firms surveyed.  
Source: World Bank, Enterprise Surveys.

To support a more dynamic private business sector, Egypt needs to streamline its business registration and licensing processes. Licensing requirements can be replaced by online registration in most cases, while a more efficient on-line application system would speed up processes. A new online platform for business registration was opened up in 2023, but difficulties remain with local permits. Simplifying procedures and reducing bureaucratic hurdles can encourage new business formation and attract more investment. Additionally, improving the transparency of administrative procedures would also reduce opportunities for corruption, which is a crucial step towards creating a fair and competitive market landscape.

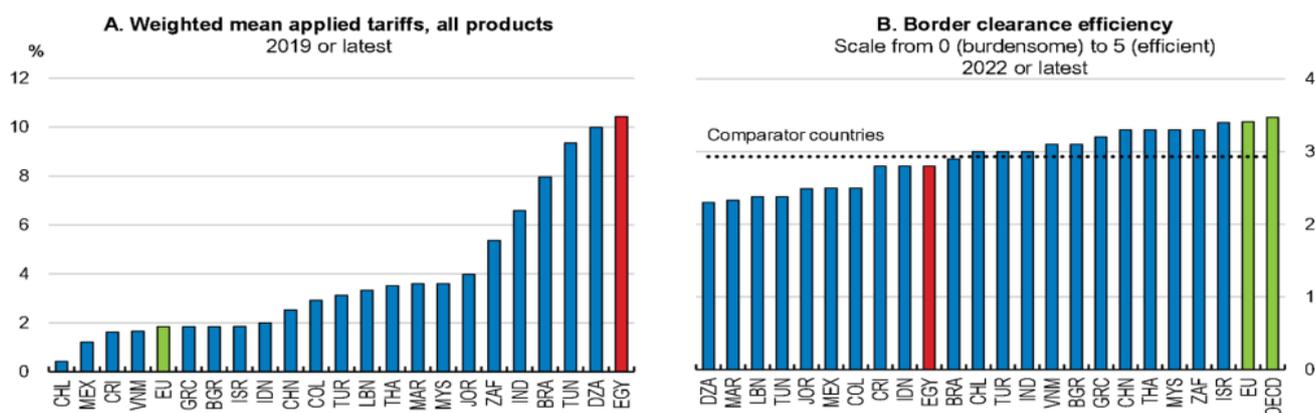
**Strengthening competitive pressures through trade and**

## **investment**

High tariff and non-tariff barriers to trade mean that the Egyptian market remains relatively insulated from global competition. Such trade restrictions limit the country's integration into global value chains and reduce the spillover benefits of foreign technology and know-how, which are essential for boosting productivity.

Liberalising trade policies and reducing tariffs can enhance Egypt's competitiveness on the global stage. The creation of the National Single Window (*Nafeza*) to support external trade, should help speed up customs procedures. Border clearance has improved but remains comparatively slow (Figure 3). To support faster import release, the authorities are working on a new risk management system, which should speed up processes by reducing the number of inspections to those selected by the risk matrix. However, Egypt should also simplify its tariff regime, as tariffs remain high and unwieldy, with particularly high tariffs for agricultural products, and for products that compete with Egyptian manufactured goods (with tariff rates of 40-60%), in a system with 7 850 tariff lines. Foreign traders whose products already meet domestic standards should not have to preregister their products, and import licences could be replaced by a simple registration with the customs authorities, as is the case in Europe. A more open and predictable trade regime would benefit domestic businesses and investors, as well as supporting more inward foreign investment. This in turn would facilitate the transfer of technology and expertise, thus foster productivity growth.

**Figure 3: High import tariffs and slow border clearance are hampering trade**



Note: In Panel A, data for the countries presented refer to 2019 except for Thailand (2015), Tunisia (2016), Israel (2017), Mexico (2018), Jordan and Malaysia (2020). Weighted mean applied tariff is the average of effectively applied rates weighted by the product import shares corresponding to each partner country. When the effectively applied rate is unavailable, the most favoured nation rate is used instead. Source: World Bank, World Development Indicators; World Economic Forum (2019), Global Competitiveness Index 4.0.

## Reducing the state's footprint in the economy

State-owned enterprises (SOEs) play a significant role in Egypt's economy, to the detriment of competitive market conditions by crowding out private sector activity. The government's recent steps to level the playing field, though commendable, need to be more comprehensive and sustained. Over-reliance on SOEs in various sectors, such as utilities and transport, but also in manufacturing, prevents private enterprises from competing on an equal footing. Privatisation and divestment of SOEs should be pursued more aggressively to reduce the state's dominance in the market. This move will not only improve efficiency but also stimulate private investment. The OECD's guidelines on privatisation could serve as a valuable framework for Egypt in this regard.

## Further actions to support private businesses: Access to finance and digital diffusion

Access to finance remains a significant hurdle for many businesses in Egypt. Banks overwhelmingly prefer to lend to the government, leaving private enterprises, especially small and medium-sized enterprises (SMEs), with limited financing options which hampers business expansion and innovation. Enhancing financial inclusion by opening up the banking sector to competition, notably by FinTechs with Open Banking regulation, can mitigate this issue. Policies aimed at improving the creditworthiness of SMEs and developing a robust microfinance sector will also support private sector growth. Improving digital financial services could play a critical role in this transformation.

Digital inclusion is key to boost productivity and competitiveness. However, Egypt lags behind in terms of digital infrastructure, and adoption by SMEs. The legal framework for digital business models needs significant improvement to allow for dematerialised businesses to expand. Investing in digital infrastructure and fostering a regulatory environment that supports digital innovation are therefore crucial steps to create a more vibrant business sector and help enhance overall economic efficiency.

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# Upgrading Korea's growth model

Category: Korea, Uncategorized

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*By Jon Pareliussen, OECD Economics Department*

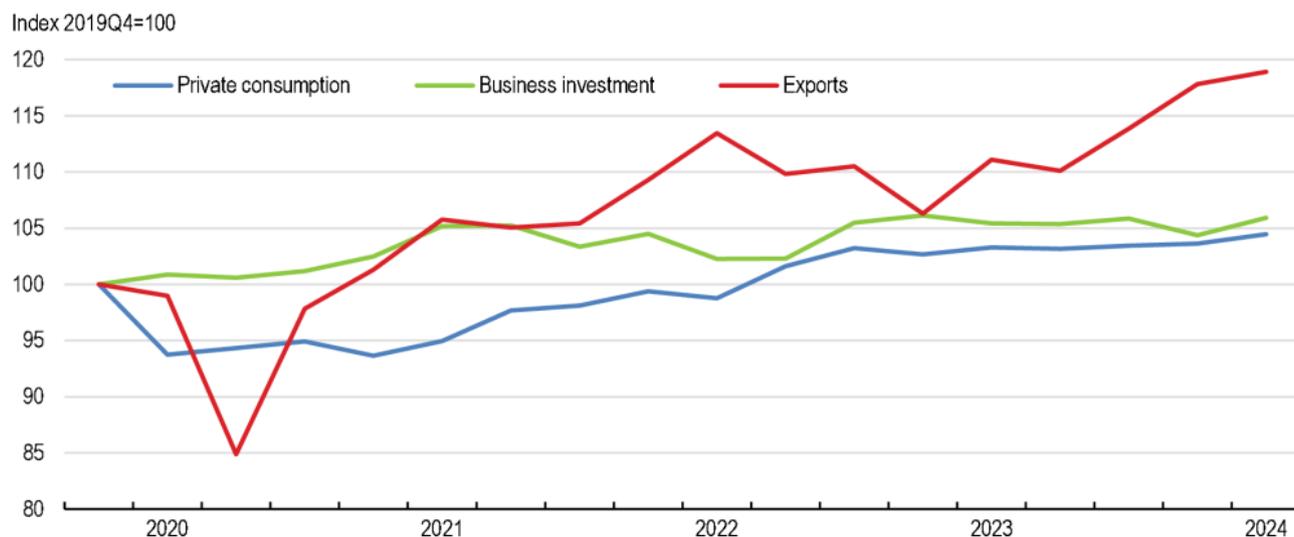
After going through a soft patch, exports are again driving economic growth in Korea as demand for computer chips has soared to power a wave of investment in artificial intelligence. Korea's export-oriented growth model has served the country well for decades, along with sound macroeconomic policies and a strong commitment to education. Even so, the 2024 OECD Economic Survey of Korea argues that Korea needs to upgrade its growth model to revitalise private consumption as an additional growth engine, to become greener, happier and halt the declining fertility trend.

Korea's export-led growth model has changed over time. Past periods of reforms that boosted competition and exports at the same time were more successful with fewer negative side-effects than periods of more heavy-handed "dirigiste" industrial policy. However, export-oriented growth in any shape or form tilts society's resources towards production, investments and exports and thereby away from consumption and leisure (Figure 1). For example, compared to the OECD average Korea spends a large share of GDP on supporting businesses

while a comparably small share is used to support people through the social safety net. Energy, of which two-thirds is used in industry, is relatively cheap, while food and clothing are expensive in relative terms compared to OECD peers.

### Figure 1. Exports drive growth

Real GDP level by component

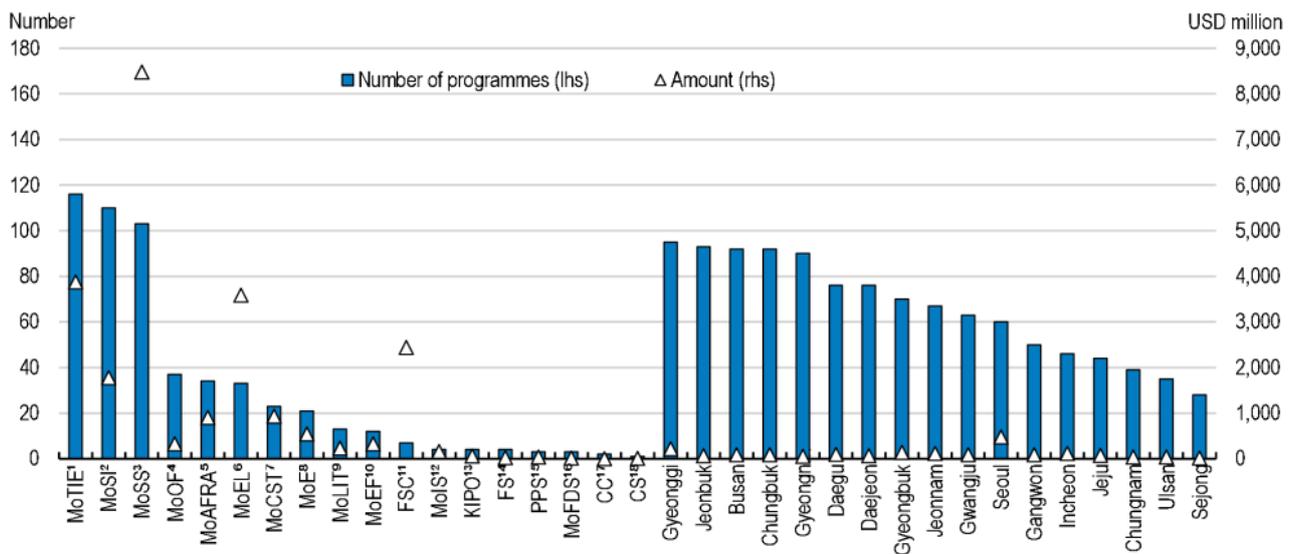


Source: *OECD Economic Surveys: Korea 2024*.

Many of the large manufacturing-heavy business groups benefitting from export promotion policy in the past gained dominance in a shielded domestic market, contributing to large productivity gaps between large and small companies and between manufacturing and services. Eventually, to meet these imbalances, the government's duty to support SMEs became enshrined in Korea's constitution. Today a cobweb of support schemes and regulations supports the SME sector (Figure 2), in which 85% of employment is found, while SME productivity keeps lagging. Consolidating these supports would facilitate productivity catch-up by levelling the playing-field in the domestic market and incentivising SMEs to grow. Room remains to further open up to foreign investment and trade and reduce public interventions in the economy.

### Figure 2. A cobweb of subsidies are available to SMEs

## SME support programmes by entity



1. Ministry of Trade, Industry and Energy. 2. Ministry of Science and ICT. 3. Ministry of SMEs and Startups. 4. Ministry of Oceans and Fisheries. 5. Ministry of Agriculture, Food and Rural Affairs. 6. Ministry of Employment and Labor. 7. Ministry of Culture, Sports and Tourism. 8. Ministry of Environment. 9. Ministry of Land, Infrastructure and Transport. 10. Ministry of Economy and Finance. 11. Financial Services Commission. 12. Ministry of Interior and Safety. 13. Korean Intellectual Property Office. 14. Forest Service. 15. Public Procurement Service. 16. Ministry of Food and Drug Safety. 17. Communications Commission. 18. Customs Service.

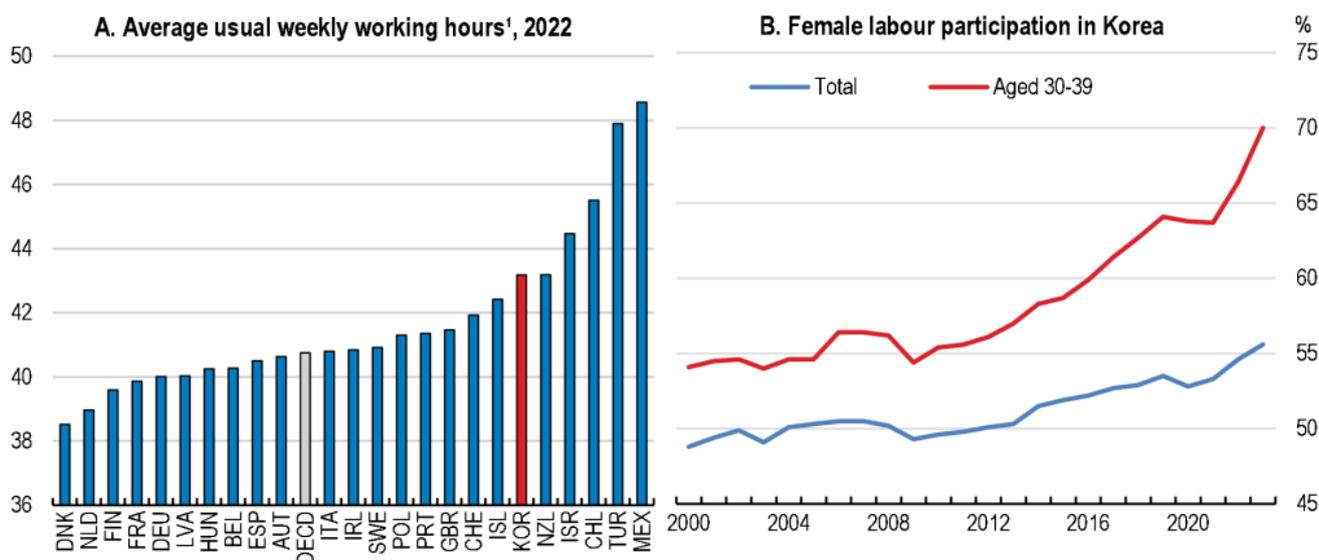
Source: Ministry of SMEs and Startups.

Concerns of adding cost to business and reducing external competitiveness have also so far stood in the way of aligning climate policies sufficiently with Korea's climate targets. Setting the overall cap of the emissions trading scheme in line with the 2030 target will take the country three-quarters of the way to meet its 2030 emission reduction target, while a failure to do so would put the target in question. Reforming electricity supply and use to a market-based system where the true cost of energy and emissions is fully reflected, would reduce the society-wide cost of the green transition.

Korea's imbalances between producing and consuming are

mirrored in mothers' and fathers' struggle to balance work and life (Figure 3). This is a key reason why Korea has the lowest birth rate in the world, falling to 0.72 child per woman in 2023. If carried forward, today's young adults will outnumber their grandchildren by nine to one, with dire consequences for labour supply and public finances. The OECD Economic Survey of Korea discusses the complex structural causes of low fertility and argues that reversing the trend would require broad structural reforms to product and labour markets, filling gaps in family policies, and changing gendered norms and practices. Adapting to inevitable ageing requires postponing retirement, boosting female and youth labour participation and promoting work immigration.

**Figure 3. Women increasingly participate in the labour market, where hours are long**



1. Average usual weekly hours worked on the main job for full-time employed.

Source: Statistics Korea; and OECD Labour Force Statistics database.

An upgraded growth model building on these recommendations would boost average incomes and let more accrue to those who will spend more, in particular low-income households and households with children. Such reforms could revitalise private consumption as an additional growth engine and make

Korea not only richer, but also greener, happier and more family-friendly.

**Reference:**

OECD (2024), *OECD Economic Surveys: Korea 2024*, OECD Publishing, Paris, <https://doi.org/10.1787/c243e16a-en>

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# A roadmap for efficient, inclusive and sustainable housing in Slovenia

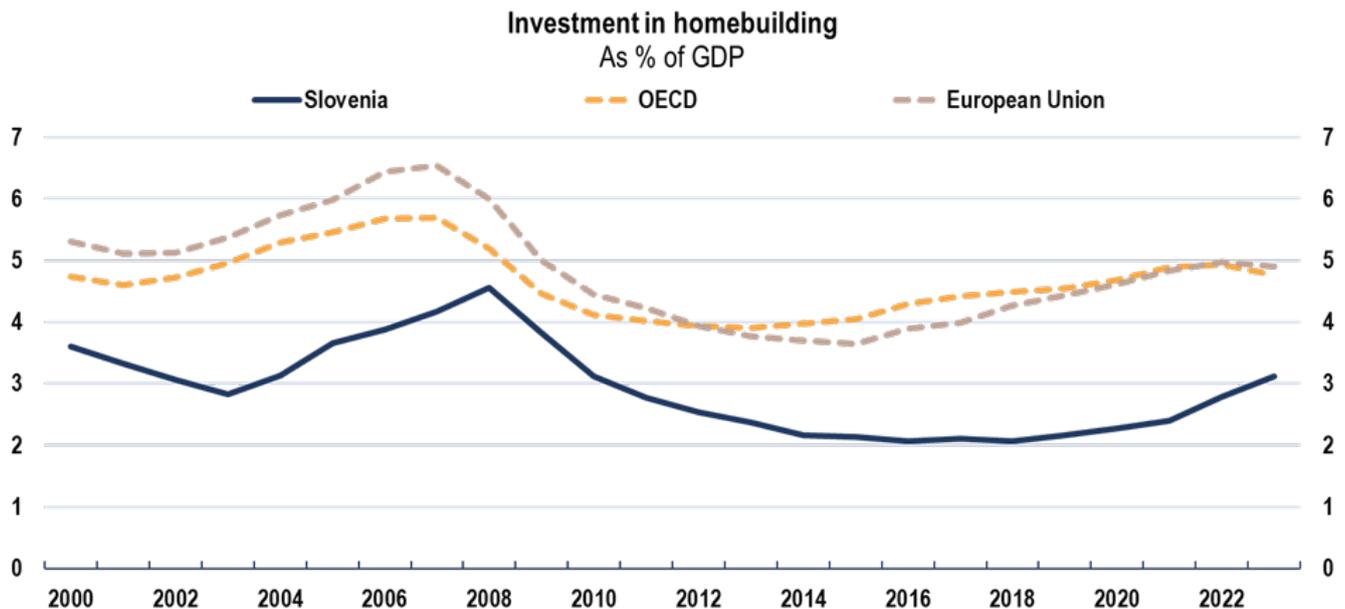
Category: Housing, Slovenia, Uncategorized  
written by oecdecoscope | July 16, 2024



By *Volker Ziemann, OECD Economics Department*

Like many other countries, Slovenia faces complex housing sector challenges that must be addressed to preserve the current high quality of life. High demand and a limited supply have led to low residential mobility, soaring prices, a high prevalence of commuting and increasing concerns about housing affordability. Slovenia's investment in homebuilding lags behind both the EU and OECD averages (Figure 1). Insufficient investment is a major factor contributing to the housing shortage and rising prices.

**Figure 1. Residential investment is subdued**



Note: Data refers to the European Union including 27 countries. Unweighted averages for OECD and European Union aggregates.

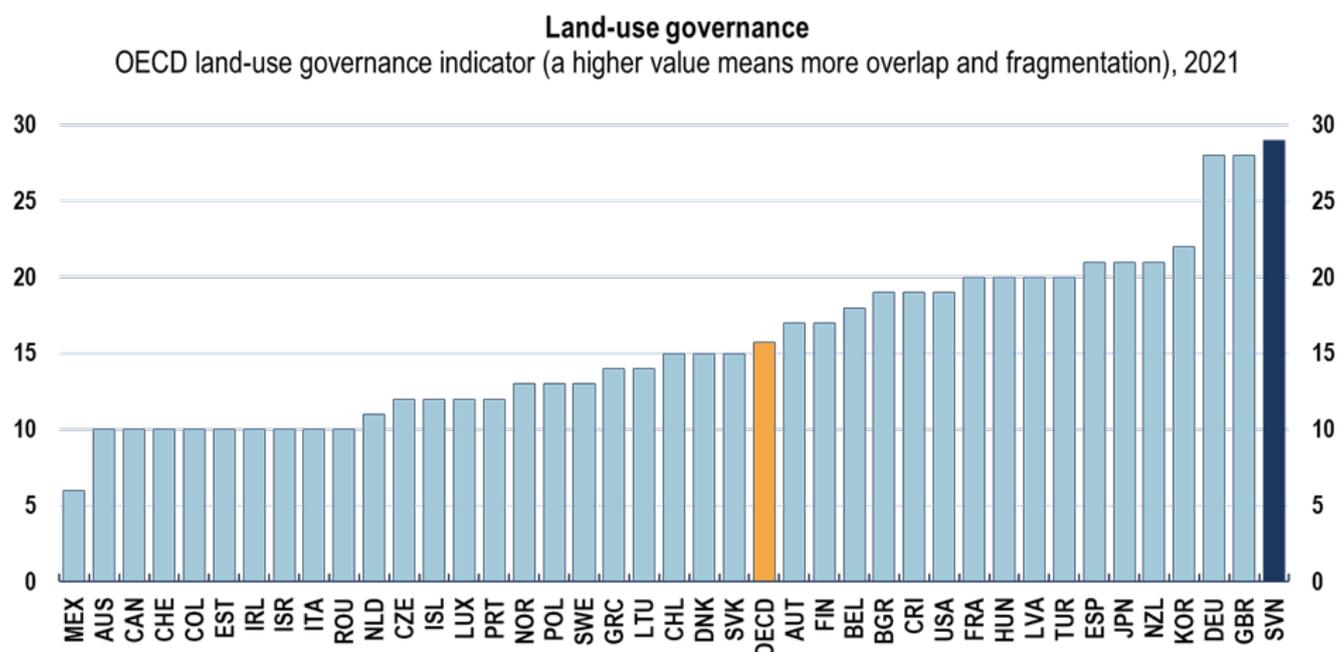
Source: OECD Economic Outlook: Statistics and Projections database; Eurostat National Accounts database; OECD calculations.

The roots of Slovenia's housing challenges can be traced back to the 1990s privatisations. While this led to high homeownership rates, it also had unintended consequences. The housing supply became restricted, mobility decreased, a private rental market remained in its infancy. As a result, many young families and first-time buyers find themselves today with limited housing options. Moreover, the ageing housing stock further defies ambitious climate goals. To address these challenges, the latest OECD Economic Survey of Slovenia proposes a comprehensive roadmap of reforms that would help to ensure that all Slovenians can access high-quality, affordable, and sustainable housing.

**Inefficient spatial planning and cumbersome permitting processes** have stifled residential construction. While there have been some recent improvements, the pace of investment remains insufficient to meet the growing demand. Streamlining

spatial planning processes, notably through better coordination across levels of government (Figure 2), and establishing one-stop shops for building permits would help improve the governance of housing markets and unlock the potential for new housing.

**Figure 2. Inefficient land-use governance restricts construction activity**



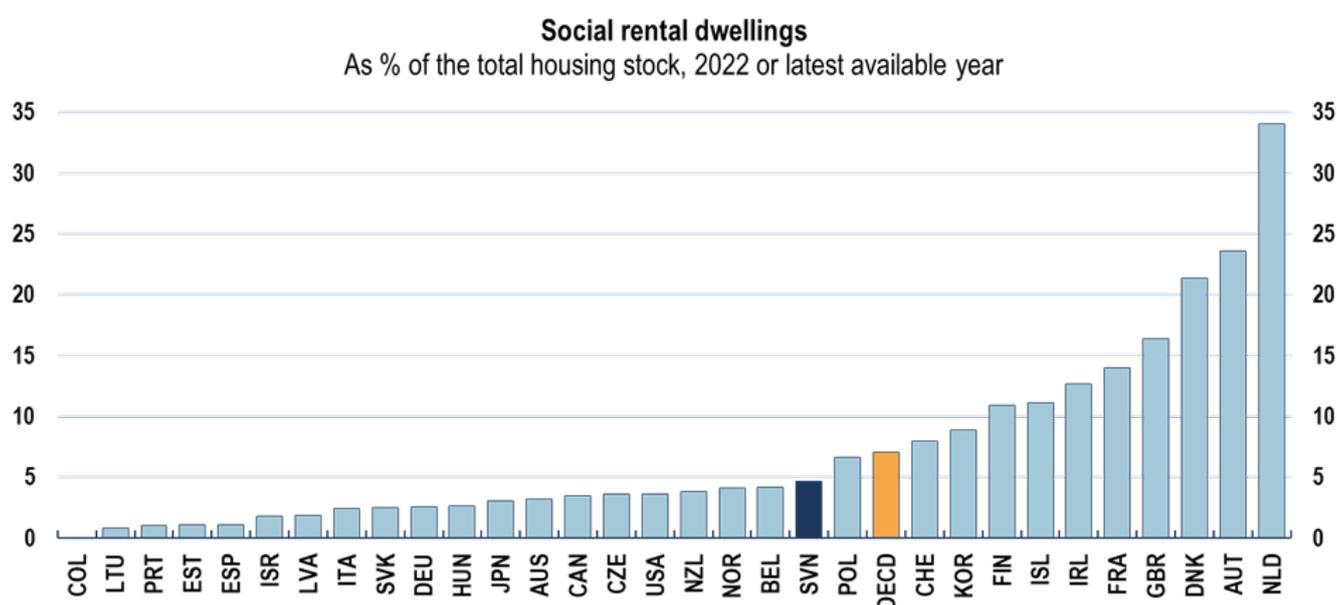
Source: OECD Housing Governance Indicators Dashboard, <https://www.oecd.org/housing/policy-toolkit/data-dashboard/housing-governance>.

The **private rental market** is underdeveloped, and a more accommodating framework is needed to make it grow. A lack of standardised contracts, tax biases, and an imbalance in tenant-landlord rights have hindered its development. Slovenia can foster a thriving private rental sector that offers attractive long-term housing solutions by introducing clear regulations and ensuring fair treatment for both parties.

The proliferation of secondary homes and short-term rentals, fueled by favourable regulations and tax incentives, has further exacerbated the affordability crisis. These properties often sit vacant for much of the year, removing them from the

long-term rental market and driving up prices. **Harmonising the taxation** of rental revenues and implementing a comprehensive recurrent tax on immovable property based on actual market values could incentivise owners to make these homes available for long-term rentals, increasing supply and easing pressure on the market. Taxing land more than the structure on it could further incentivise the construction of underdeveloped or idle land.

**Figure 3. There is scope to expand the social housing stock**



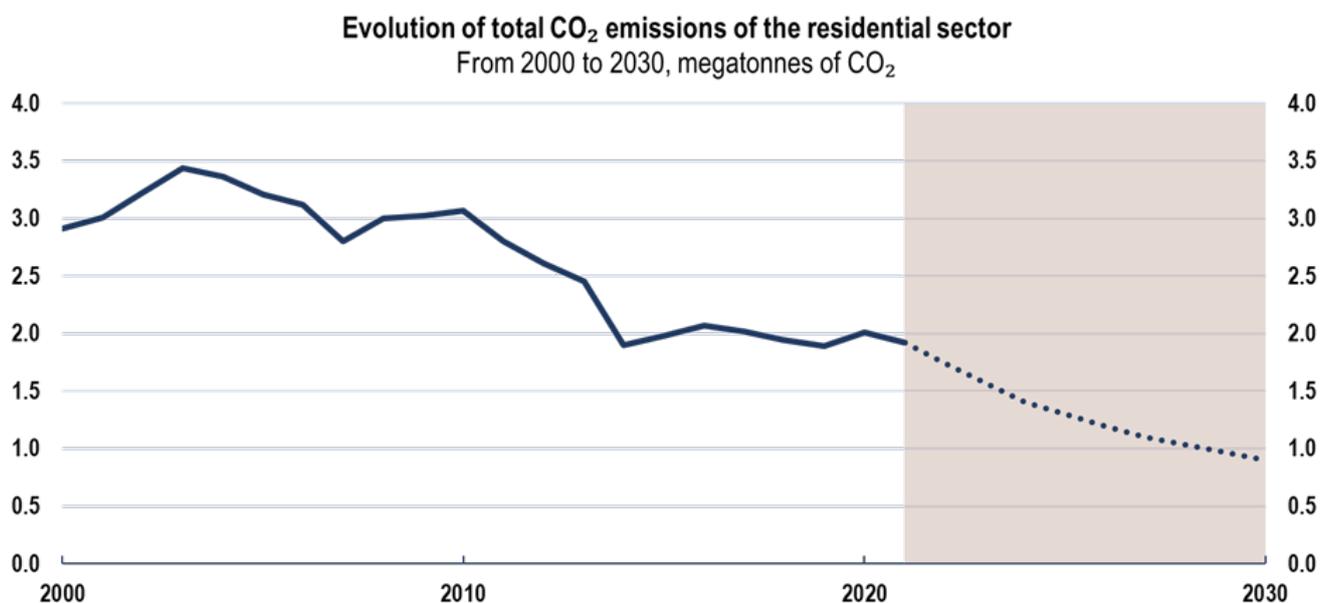
Source : OECD Affordable Housing Database (AHD).

**Slovenia's social housing sector is also underdeveloped** compared to that of its European neighbours (Figure 3). The upcoming Housing Act presents an opportunity to rectify this situation. A revised social rent formula, coupled with incentives for potential providers, including limited-profit housing associations, could pave the way for increased investment in social housing, providing affordable options for low-income families and individuals.

**Slovenia's mortgage markets are small**, limiting access to finance for aspiring homeowners. Promoting competition in the banking sector and empowering consumers with financial knowledge is crucial to expand housing finance and increase

homeownership opportunities. Moreover, making more and better use of credit registers could reduce lending margins and fuel demand for mortgage financing.

#### **Figure 4. Incentivising renovation is needed to accelerate the decarbonisation of homes**



Note: Dotted line refers to projections.

Source: IEA Energy Efficiency Indicators, 2023.

Finally, the **decarbonisation of Slovenia's housing stock** is a pressing concern (Figure 4). A significant portion of residential buildings are outdated and energy-inefficient. The recent energy crisis has underscored the urgency of transitioning to energy-efficient housing. While the investment required is substantial, a combination of fiscal support measures and enforceable regulations can help homeowners make the necessary upgrades.

Slovenia's housing challenges are complex and multifaceted, but they are not insurmountable. By implementing comprehensive reforms that address inefficiencies and policy bottlenecks, Slovenia can create a more efficient, inclusive, and sustainable housing market.

#### **Reference**

# Mexico and the benefits of global value chains

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By Elena Vidal and Alberto González Pandiella, OECD Economics Department

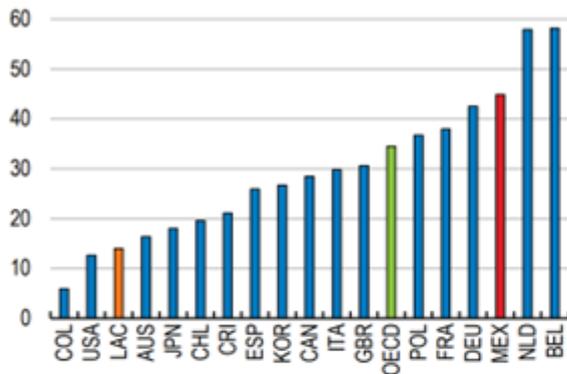
At the beginning of the 1990s, Querétaro, a state in central Mexico, was primarily known for its agriculture and small-scale industries. Many residents migrated to larger cities or the United States in search of better prospects. Today, Querétaro is a recognized hub for the aerospace industry. Thousands of jobs were created, and local talent has thrived thanks to partnerships between companies and local universities and technical schools.

The 1994 North American Free Trade Agreement (NAFTA) was crucial in this success story and triggered a transformation of the Mexican economy, which became deeply integrated into global value chains (GVCs), with exports as a share of GDP tripling between 1994 and 2023. This success story is not without shadows and significant challenges remain. Not all

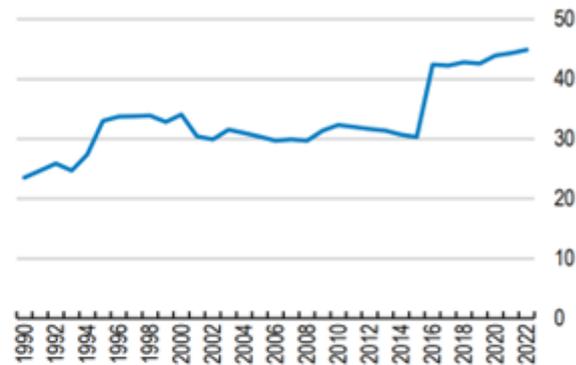
the states in Mexico benefited from the trade agreement equally, and Southern states lagged, contributing to the high inequalities seen in Mexico today (OECD, 2024). Disentangling backward and forward linkages shows also that Mexico's GVC participation is mainly driven by backward linkages to GVCs, i.e., the share of foreign value added in Mexico's total exports is large (Vidal and González-Pandiella, 2024). Conversely, Mexico's forward participation, i.e., the share of Mexican value added embodied in foreign countries' exports, is relatively low, (Figure 1). This reflects a strong specialisation in assembling processes and Mexico being a prime exporter of final goods assembled for the US manufacturing sector. Moving up in the value chain and developing stronger forward linkages would boost productivity and promote more and better remunerated formal jobs.

**Figure 1. Mexico's backward participation in global value chains is high and increasing while forward participation remains low**

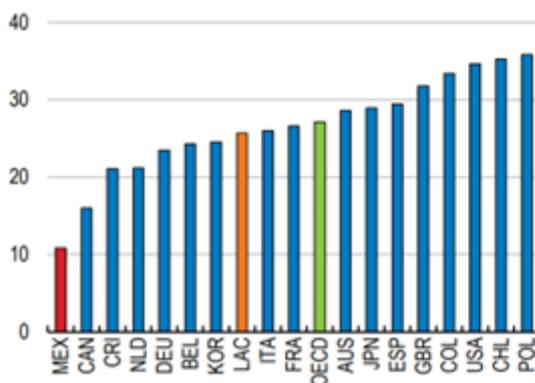
**Mexican backward participation in GVCs is among the highest in the OECD**  
% of total exports, 2022



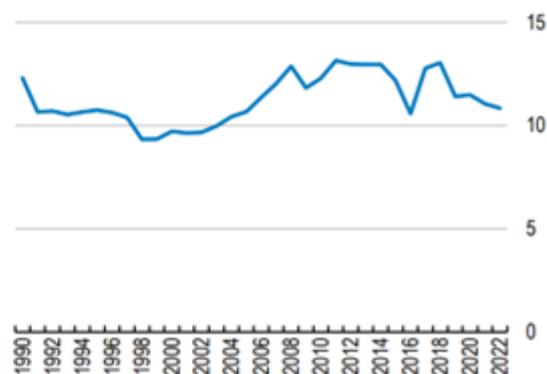
**Mexican backward participation in GVCs has increased**  
Foreign value-added embodied in Mexican exports, % of total exports



**Mexico's forward participation in GVCs remains very below the OECD average**  
%, 2022



**Mexican forward participation in GVCs shows limited progress**  
Mexican value-added in other countries' exports, %



Note: LAC is an unweighted average of Chile, Colombia, Costa Rica, Argentina, Brazil, and Peru. Backward GVC participation corresponds to the foreign value added which is embodied in a country's exports as a share of this country's total exports. Source: UNCTAD-Eora Multi-Region Input-Output tables (MRI0) (1990-2017); and estimations (2018-2022).

Ongoing nearshoring trends provide historic opportunities to spread the benefits of integration into GVC to other regions in Mexico (González Pandiella and Maravalle, 2024). Nearshoring also holds the promise to improve supply chain linkages, shifting from low-cost assembling processes to higher value-added functions being carried out in Mexico. Identifying which public policies can help to grasp these opportunities is of utmost relevance at the current juncture, with a new government taking office in September 2024.

According to our recent paper (Vidal and González-Pandiella, 2024), the following 5 public policies would help :

- 1. Keep free trade agreements and maintain low tariffs.**  
Mexico's current trade policy stance of maintaining wide trade agreements and low trade tariffs is conducive to GVC participation. Seeking new trade agreements, especially in services, and enhancing trade integration with Latin America would also help to increase GVC participation.
- 2. Improve infrastructure, logistics, and connectivity.**  
This would particularly increase most remoted regions chances to integrate into GVCs.
- 3. Increase investment in research and development (R&D).**  
This would boost firms' local innovation activities and facilitate that higher value-added activities can also take place in Mexico.
- 4. Improve the rule of law and the business environment.**  
This is essential for attracting foreign investment and encourage domestic entrepreneurship, as it reduces risks, uncertainties and costs associated with cross-border transactions.
- 5. Increase female labour participation and enhance educational outcomes.** Higher female labour market participation increases the pool of available talent and skills, allowing firms to tap into a more diverse workforce. This diversity can lead to a wider range of perspective and ideas, boosting firms' innovation and adaptability and their ability to move to more sophisticated sectors and activities. By having a larger workforce equipped with relevant skills, companies can better manage risks associated with labour shortages or disruptions, enhancing the resilience of supply chains.

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