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Volume II:

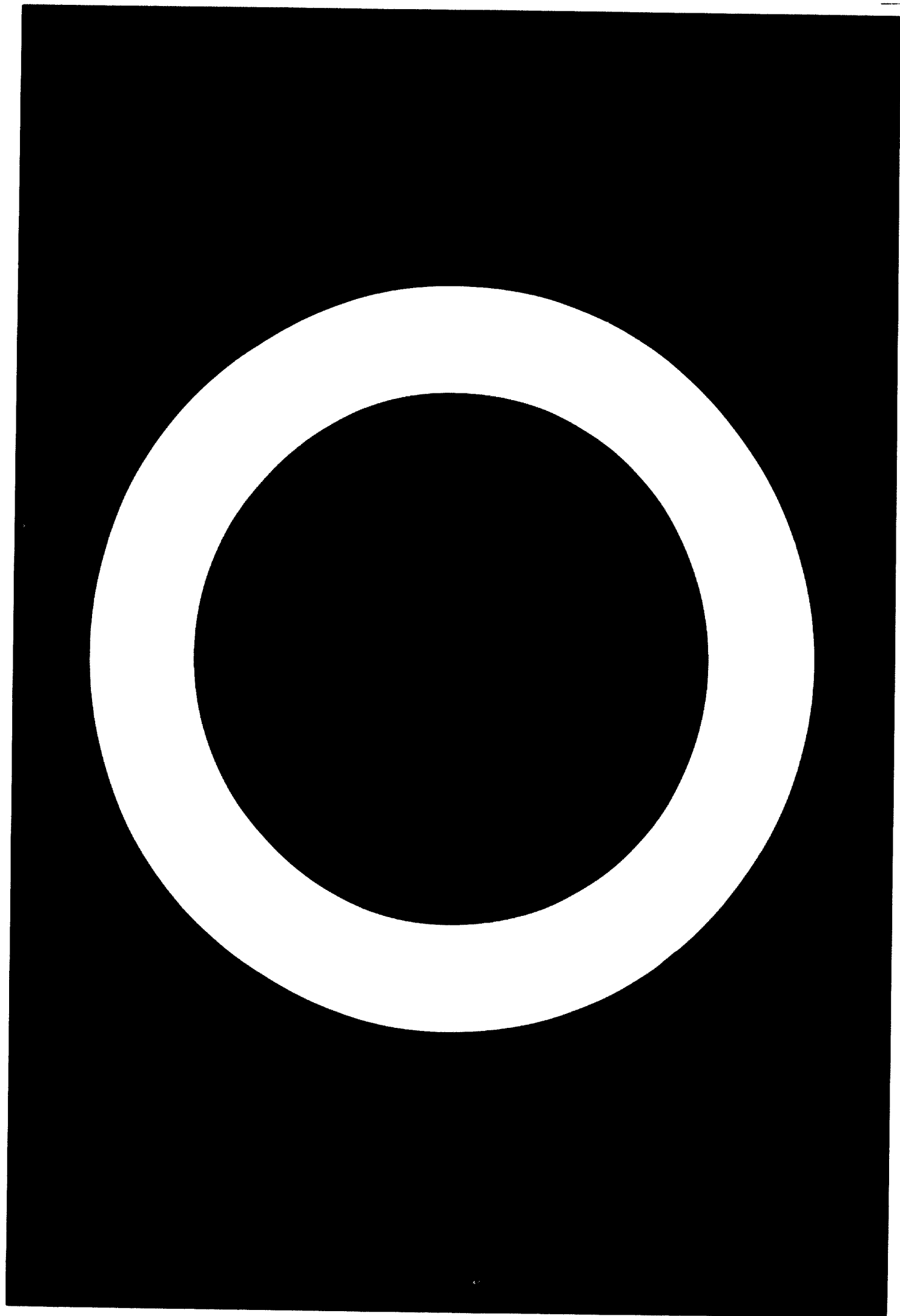
Manufactured exports - development since 1950 and
their future prospects

-- JUN 1977

Prepared for the Government of the Arab Republic of Egypt
by the Institute of National Planning on behalf
of the United Nations Industrial Development Organization

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PREFACE

This is one of a series^{1/} of four studies on some aspects of industrial development in Egypt undertaken by the Institute of National Planning (INP) in Cairo at the request of the United Nations Industrial Development Organization (UNIDO). It is expected that these descriptions of the Egyptian experience will prove useful to developing countries at all levels in formulating industrial programmes and setting policies to achieve development goals. They may also be of interest to developed countries and international organizations, giving them a better perspective of the fields of activity covered by their different types of programmes.

The present study deals with the development of Egyptian exports of manufactured items, beginning with 1950, and their future prospects. The importance of the topic does not need emphasis here; it suffices to note that while struggle for economic development in Egypt having an increasingly adverse effect on its balance of payments, further expansion of agriculture is difficult because of the lack of arable land. It is therefore up to the manufactured exports sector to provide growth and balance foreign payments.

The study is divided into four chapters. Chapter I attempts, through a macro-economic view of the Egyptian economy, to explain the role that manufactured exports must play. Chapter II gives a statistical portrayal of the sector, concentrating on its structure and geographic distribution. Chapter III confronts two important aspects of the foreign demand for Egyptian manufactured goods: (a) the issue of export subsidies and (b) the prospect of marketing Egyptian goods in the Arab countries. Chapter IV deals with the question of supply; in particular, it attempts to pin-point the difficulties facing the growth of industrial exports.

The coverage of this study extends to 1974. However, it was difficult to deal with the period starting with 1973, when some major changes in the Egyptian economy began to occur. This period deserves a separate study of its own.

The scope and depth of this study have been restricted by the lack of data. In particular, the actual costs of production of different export items and

^{1/} The other three studies published under symbol UNIDO/IOD.189 deal with the following aspects: Volume I with "The structure and organization of the Egyptian manufacturing industry since 1945", volume III with "Small-scale industries" and volume IV with "Transfer and adaptation of technology".

their import content were hard to determine. Moreover, data on the economic relations between different Arab countries were difficult to obtain.

The first draft of this study was prepared by Sayed Dohia, Mohamed Afr, both from INP, and Essam Montasser, from the Price Planning Agency. In response to comments by the Survey Section of UNIDO, it was revised under the supervision of Alfonse Aziz, Head of the Center of International Economic Relations, INP. Since Mr. Dohia and Mr. Afr were on leave of absence, the work of revision was done by Mr. Montasser and Mabid Al-Jarhi of INP.

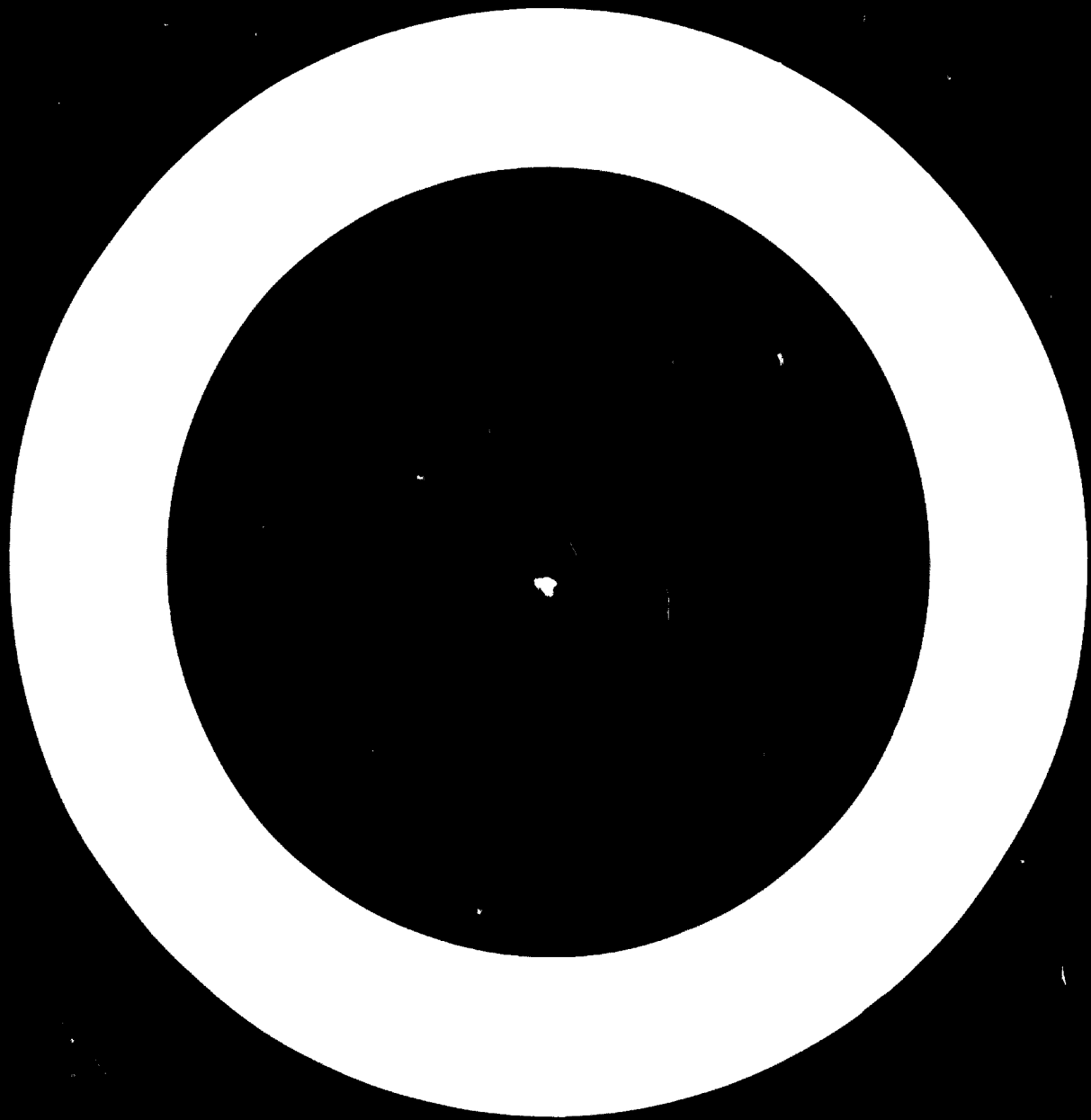
The authors express their thanks to the staff of the Survey Section of UNIDO for their helpful comments and to the staff of INP and the Ministry of Planning for a variety of helpful services.

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I. A MACRO ANALYSIS OF THE ROLE OF MANUFACTURED EXPORTS IN EGYPT

A. Import substitution stage

The beginning of the fifties marked a special phase in Egypt's long-term economic growth, as the import substitution stage began. However, industrialization via substituting for imports began on a modest basis with the outbreak of the First World War. Nevertheless, it was only at the beginning of the fifties that the weight of industry in the national economy became large enough to pull the country towards growth. In other words, the import substitution stage refers to the period during which industrialization, primarily substituting for imports, became the engine of growth.

The situation at the beginning of the fifties was a critical one characterized by structural imbalance. (This was particularly so after the halving of the international prices of cotton triggered by the post Korean war conditions). The country's exports consisted overwhelmingly of cotton, whose production was not increasing. At the same time, both producer (i.e. raw materials, intermediate inputs, and capital goods) and consumer goods imports were rising rapidly. Structural imbalance emanated from the inconsistencies in output, export and import propensities, and basic changes in the structure of production and trade were necessary to correct the imbalance. Furthermore, the problem was particularly pressing since Egypt had undergone its agricultural revolution, and was left with no agricultural "slack" to tap as a means of financing the requirements of industrialization. In this respect, Egypt differs from most developing nations whose slow agricultural growth in the post Second World War was due either to a feudal agricultural organization, to an absence of primary inputs such as labour, or to low productivity of the land.

This was the situation at the onset of the import substitution stage, and import substitution was adopted to cope with it. The essence of the strategy was to accelerate industrial growth in import substituting, thus allowing for a gradual elimination of consumer goods imports. This was to be supplemented by other policies such as the encouraging of direct foreign investment which, however, responded poorly mainly in view of political conditions.

While the import substitution strategy succeeded in largely eliminating many consumer goods imports, it also brought about a substantial growth in income, and accordingly created new demand for products, some of which had to be imported. A major additional import item that emerged was food.

Egypt's agriculture follows a tripartite crop rotation system according to which any plot of land is cultivated with cotton only once every three years. In other words, in any year only one third of the total arable area is cultivated with cotton. Since the size of the cultivable area has almost remained the same since early in this century, the cotton area has remained virtually constant. The rest of the cultivable area is allocated mainly to cereals and clover

In the past, the area cultivated with cereals was sufficient to feed the Egyptian population and produce some surplus for export. In more recent years, the food trade was about balanced. However, the rapid rate of population growth in the past two decades, the rise in real income per capita, and the employment, wage, tax and price policies followed by the Government since the early fifties aiming at income redistribution, led to a great upsurge in domestic food demand. Consequently, the balance of the trade in food became deficit, thus adding a new major item on the import list.

Having briefly mapped the growth of imports and its major components since the beginning of the import substitution stage, let us now compare it with the growth of exports. Table 1 gives a statistical picture of growth and structural changes in exports. As is clear from the table, exports increased in real terms at an average cumulative rate of 2.8% per annum. Exports of manufactures were the main source of growth, increasing at an average cumulative rate of 9.7% per annum, while exports of primary commodities, mainly agricultural stagnated.

In regard to manufacturing exports, first, most of the growth took place during the decade of the sixties. The rate of the growth of manufacturing exports declined in the 1970s. Secondly, this export performance was achieved at a high cost in income. In brief, the country was willing to maximize exports of manufactured products even at a negative profit rate, of which the trend is reflected in table 2.

Table 1. Exports by commodity groups,^{a/} 1959/60 - 1974
(million LE, at constant 1959/60 prices)

Year	Agricultural exports	Mineral exports	Primary exports	Manufactures exports	Total Commodity exports
1959-60	142.9	6.5	149.4	40.5	189.9
64-65	130.1	11	141.1	87.7	228.8
69-70	135.7	6.1	141.8	119.5	261.3
1973	137.1	32.4	169.5	107.6	277.1
1974	108	3.5	111.5	112	223.5

^{a/} The commodity composition of each group is that of the I.S.I.C.

Source: Ministry of Planning.

Table 2. Price indices for manufactures exports and imports,
1959/60 - 1974

Year	Export price index	Import price index
1959/60	100	100
64/65	90	128
69/70	93	118
70/71	91	129
71/72	95	134
1973	133	145
1974	223	242

Source: Ministry of Planning.

The figures in the table clearly indicate the declining trend in the country's export prices of manufactures (which were reversed only after the October war of 1973). This trend is accentuated if we realize that over the same period a similar index for import prices shows a sustained rise. Furthermore, if we compare the export performance with the output base, we get the following picture (see table 3).

The highlight of table 3 below, is the inverse movement of the agricultural and industrial export coefficients. However, in the light of the greater absolute weight of agricultural exports during the sixties, their more rapid decline, as well as the decline of the export coefficient of services, we find that the national export coefficient steadily declined.

Regardless of the level of the aggregate export coefficient and its pattern of change over time, the ultimate test is its movement in relation to imports given a certain rate and pattern of output growth, and this is shown in table 4.

The chronic deficit in the country's commodity balance of payments over the past quarter century was financed from three sources: one, the sterling balances accumulated during the war period; two, the surplus in the balance of invisible trade especially after the nationalization of the Suez Canal; and three, foreign borrowings. However, by the end of the 1950s the country had depleted its foreign exchange reserves. In 1967 it was deprived of the Suez Canal dues, its main source of service revenues. Since 1967 financing the deficit in the balance of payments fell entirely on foreign aid including Arab compensation.

With the foreign debt reaching critical levels, additional foreign loans became increasingly difficult and costly. The only alternative open to the country was to reduce imports to the bare minimum, which meant that many producer and consumer demands for imports went unsatisfied. This led to substantial capacity under-utilization in production, especially in industry, resulting in a deceleration of output growth; on the other hand, it triggered off structural inflation which, in turn, has had an indirect bearing on industrial exports. This critical situation was completely changed with the outbreak of the October (1973) war.

Table 3. Evolution of export coefficients, 1959/60 - 1974
(million LE, at constant 1959/60 prices)

Year	Agriculture			Industry ^{a/}		
	Net output	Exports	Ratio	Net output	Exports	Ratio
1959/60	405	143	35	256	47	18
64/65	477	130	27	386	99	26
69/70	514.9	136	26	464	126	27
1974	507.2	108	21	620	116	19

a/ Industry includes the manufacturing and mining sectors.

Source: Ministry of Planning.

Table 4. Commodity exports and imports at current prices
1950 - 1974 (million LE)

Year	Payments for commodity imports	Receipts from commodity exports	Balance of commodity payments
1950	222	185	- 37
1960	258	204	- 54
1965	413	247	-166
1970	518	355	-162
1971	541	370	-171
1972	560	354	-206
1973	622	396	-226
1974	1253	654	-599

Source: Central Bank of Egypt.

B. Beyond Import Substitution

The above discussion leads to the conclusion that the deficit in the balance of trade for 1972 (table 4) is by no means indicative of the potential gap. Imports are depressed and are far below their minimum, if the existing production capacity and consumer demand requirements were fully utilized. A quick, and admittedly rather crude, assessment of the prevailing estimates of the value of imported inputs needed for fuller utilization of production capacity in the industrial sector, and of other important import demands for both production and consumption, would make one conclude that the deficit in the balance of payments would be larger, if non-restricted importation was allowed.

Furthermore, it must be added that in recent years the share of gross fixed investment in GDP has fluctuated between 12% and 15%. Such a rate of capital formation can hardly bring about marked growth in per capita income. Assuming a capital/output ratio of 3, the above rate of capital formation would allow, ceteris paribus, a rate of GDP growth of between 4 and 5%, which would mean even less on a per capita basis with a growing population. If the economy is to grow at a rate of 6% to 7%, the prevailing share of capital formation in GDP must nearly double. If such a prospect materialized, this would mean that imports of capital goods would double in the coming two to three years.

This is especially true in the light of the Ministry of Industry repeated complaints about the serious lack of needed imports of replacement and spare parts for existing equipment. One should multiply the current capital imports of LE 100 per annum by a coefficient of 2.5 to 3 to obtain an estimate of future needed imports of this commodity group taking into consideration the prospective growth in income and the pent-up demand for capital goods.

Accordingly, on the basis of the above discussion, one can anticipate the deficit in the balance of commodity trade in the coming few years to rise. That does not include the import requirements needed for post war reconstruction purposes, which would require extra sources of finance.

C. External finance, industrial exports and the
balance of payments long-term view

Thus, the average import coefficient (commodity imports/GDP at factor cost) of 0.19 for the years 1969/70-71/72 lags far behind the one needed for full capacity utilization. Basing our argument on the above analysis this coefficient should be in the range of 0.30. Of course, anticipated acceleration in the rate of capital formation will push aggregate imports upwards, but at the same time it will bring about better utilization of existing capacity and substantial growth in output. The result will probably be a stabilization of the commodity imports/GDP ratio at a level ranging between 0.25 and 0.30. The import coefficient might decline a little after a few years once the initial accumulated pent-up import demand has been satisfied.

Over a longer period, and moving into import substitution of more sophisticated products coupled with a more efficient use of imports, one might succeed in reducing this commodity import coefficient below the above forecasted range. But such an eventuality requires a long period, probably a minimum of a decade or two. Therefore, it would be wise to base the country's policy and plan calculations on the basis of our (Institute of National Planning) estimate.

An import coefficient of a mean value of 0.27 stands in contrast to a corresponding export coefficient of a mean value of 0.12. However, a gap between the two coefficients of say 0.12, which is the annual deficit in the balance of commodity trade, would amount to about 15% of GDP at least.

The main responsibility for filling in this gap in the coming decade or so will probably be shouldered by external finance in the form of either foreign government loans or direct investments. This source of finance will hopefully be partially aided by a surplus balance on invisible trade. As for industrial exports, given their small absolute weight at the present time, they cannot but play only a marginal role in this regard within the coming few years.

While in the short and medium-run external finance will play the main role in financing the deficit in the balance of commodity trade, over a longer period this task will have to be inevitably undertaken by industrial exports. Therefore, external finance must be understood to be an external factor of

production whose main assignment, from Egypt's point of view, is to assist the industrial sector to build up production and export capacity and thus to be able to fill in the deficit in the balance of trade in the future. In the event that foreign aid and investments are used for other requirements, no matter how crucial these may seem to be, the country will be running serious risks in the future.

In the past fifteen to twenty years there have been large foreign resource inflows into Egypt. These inflows were not fully utilized to build up the country's production and trade capacity. A substantial portion of the incoming foreign resources was used as a substitute for domestic savings i.e., to finance current (public) consumption, because of the low rate of national savings which has fallen below 10% in recent years. Private savings; which includes household, business, and public-savings, have averaged over 20%. This indicates that the low national savings rate is due to government dissaving.

The past two decades were fraught with difficulties and extraordinary challenges, including three wars. In spite of this, a great deal of industrial progress has been achieved. Circumstances have given the country a second chance which can be used to usher in a new era of rapid industrial growth. This is especially so since the internal and external environment, within which the economy is functioning is currently far better than before.

II. A STATISTICAL PORTRAYAL OF EGYPTIAN EXPORT OF MANUFACTURES

A. The distribution of exports between agriculture and manufactures

Tables 5 and 6 show the development in total, primary, and manufactured exports since the beginning of the sixties. Growth of exports in the past decade have averaged about 5%. However, it was mainly due to growth in exports of manufactures which averaged 10.5% compared to a 2.9% for primary exports. The first half of the decade witnessed a 13.5% rate of growth for manufactured exports, while only a 6% rate was reached in the second half, because of the 1967 war. Although the latter did not make up a significant proportion of the former, the growth in total exports during the sixties was mainly propelled by the growth of manufactured exports.

During the seventies, exports performed somewhat differently. In the first three years manufactured exports enjoyed a 13% rate of growth, while primary exports actually declined. However, between 1972 and 1974 both kinds of exports had grown significantly, with the rate of growth of manufactures reaching 15.5%, and that of primary exports reaching 20%. As for their relative importance, exports of manufactures continued to rise from 21% of total exports in 1960 to around 40% in the early seventies.

B. Geographical distribution of Egyptian exports

The direction of Egyptian exports has changed considerably since the end of the fifties. The most important development in this regard was the considerable increase in the relative importance of socialist bloc countries as markets for such exports. Table 7 shows the main change in the relative importance of main country groupings during some selected years.

Table 5. Development of Egyptian exports during the period
1959/60 - 1974 (million LE at current prices)

Year	Total exports Value	Primary exports		<u>Manufactures</u> exports	
		Value	% of total	Value	% of total
		9.4			
1959/60	189.9	147.6	79	40.6	21
1960/61	189.0	142.6	76	46.4	24
1961/62	151.0	101.9	68	49.1	32
1962/63	197.8	137.9	70	59.9	30
1963/64	238.3	161.6	68	76.7	32
1964/65	265.2	185.1	70	80.1	30
1965/66	259.5	179.6	70	78.9	30
1966/67	261.3	172.2	67	89.1	33
1967/68	246.5	162.1	66	84.4	34
1968/69	304.3	194.7	64	109.6	36
1969/70	328.1	222.7	68	105.4	32
1970/71	339.3	214.7	63	124.5	37
1971/72	349.1	209.4	60	139.7	40
1972	358.8	207.2	58	151.6	42
1973	444.2	263.8	59	180.4	41
1974	593.3	358.1	60	235.2	40

Source: Ministry of Planning.

Table 6. Growth rates of different categories of Egyptian exports,
1959/60 - 1974 (Percentages)

	Total exports	Agricultural exports	Manufactured exports
1959/60 - 1968/69	5.0	2.9	10.5
1959/60 - 1963/64	4.9	2.0	13.5
1964/65 - 1968/69	2.9	3.0	6.0
1969/70 - 1974	12.5	10.0	17.5
1969/70 - 1972	3.0	2.5	13.0
1972 - 1974	19.0	20.0	15.5

Source: Ministry of Planning.

Table 7. Direction of Egyptian Exports, 1952 - 1974
(million LE at current prices)

Year	Arab countries		Socialist countries		Western countries		Others	
	Value	%	Value	%	Value	%	Value	%
1952	7.7	6	25.6	18	135.0	64	34.8	12
1955	14.2	10	33.6	28	67.0	50	18.6	12
1959/60	21.2	11	94.0	49	52.4	26	22.3	12
1964/65	18.4	7	142.3	54	71.4	27	33.1	12
1969/70	23.0	7	196.2	60	59.1	18	47.8	15
1970/71	29.0	9	208.5	61	52.6	16	43.1	14
1971/72	27.8	8	216.0	62	62.9	18	42.4	12
1972	26.6	7	213.4	61	65.7	18	47.1	13
1973	30.2	7	245.0	55	110.4	25	57.2	13
1974	43.2	7	329.8	56	132.1	22	88.2	15

Source: Ministry of Planning.

After counting for a rather small proportion of Egyptian total exports during the early fifties (13% in 1952, and 25% in 1955) the socialist countries received more than 60% of the total in 1971/72. In contrast, the share of exports to Western countries had decreased considerably during the same period, from more than 60% of the total in 1952 to 18% in 1971/72. The share of Arab, African, and other countries was more or less stable. For the Arab countries, their relative importance was about 8% of the total, a rather low ratio which might not seem consistent with the continuous efforts and agreements to increase it.

Such considerable change in the flow of Egyptian exports to world markets was a result of many economic and non-economic factors such as:

(a) The use of comprehensive economic planning in the formulation and the execution of economic policies. This certainly implied foreign trade planning;

(b) The reorganization of the external economic relations sector and the predominance of state trading in Egyptian foreign trade. One of the main consequences of that was the domination of bilateral trade agreements in Egyptian trade. For example in 1970, 97% of Egyptian exports were completed through bilateral trade agreements with different countries especially the socialist countries, against 57% in 1952 and 80% in 1960;

(c) The need to diversify the external markets for Egyptian exports especially with the change in the structure of these exports and the deterioration in some of the traditional outlets for Egyptian commodities;

(d) The change in Egyptian political and economic relations with foreign countries, and the subsequent change in the direction of Egyptian exports and imports;

(e) Last but not least, the structural changes in Egyptian exports lead to a change in the direction of trade away from the traditional markets, which had absorbed mainly traditional exports, to new markets in socialist and developing countries which absorbed new products. However, since 1972, the share of socialist countries started to drop in favor of Western and, to a lessere extent, Third World countries. Meanwhile, the share of Arab countries has continued at a stable level. This change can be related to the gradual implementation of an "open-door" policy advocated recently by Egypt.

C. Structural developments in exports of Manufactures

From the first glance at manufactures exports statistics in tables 8, 9 and 10, one notices their high concentration in a few commodity groups, namely yarn and textiles, foodstuff and beverages, crude oil, prepared cloth and footwear, clothes, cosmetics, and metal products. Yarn and textiles were by far the most important commodity group in these exports and alone represented about one-half of the total. Exports of thin yarn were the most important item in the yarn and textile group representing alone about one-half of the total, their value reaching about 50 million pounds in 1974 after being less than one million in 1959/60. Mineral products was the second most important group for all manufactured exports representing about 13% of the total. As might be expected, crude petroleum represents the most important item in this group. Foodstuffs, beverages, and tobacco was the third most important item in manufactured exports until 1973. In 1974, petroleum products shared the same rank and represented about 11% of total manufactured exports.

Finished fabrics or cloth and footwear stood in fourth place and represented about 8% of the total in 1974. Their value increased significantly from a little over one million pounds to nearly 18 million pounds during the period. Exports of footwear in contrast to some other products depend on the import of raw materials from abroad. Engineering products occupied fifth place, followed by chemical products, of which cosmetics was the major item.

D. Production and Exports of Manufactures

It is important to relate exports of manufactures to some other relevant economic variables such as GDP, value-added, and imports in order to evaluate the export behaviour of different commodity groups and to determine the most efficient types among them. Using correlation analysis to study the relationship between production and exports for main commodity groups in the Egyptian exports of manufactures, it was found that a correlation of more than 75% existed in the case of foodstuffs, beverages and tobacco (75%), finished fabrics, yarn and textiles (89%), chemical products (80%), and petroleum products (91%). Similar correlation for other commodity groups were 50% or less which might indicate that domestic production has had no significant influence on their exports.

Table 8. Structural developments in Egyptian exports of manufactures, 1959/60 - 1974 (million LE at current prices)

Commodity groups	59/	60/	61/	62/	63/	64/	65/	66/	67/	68/	69/	70/	71/	72/	1972	1973	1974
	60	61	62	63	64	65	66	67	68	69	70	71	72				
Crude Oil	3.2	4.0	7.2	13.6	14.8	10.5	500	4.5	2.9	5.1	6.2	13.3	17.3	20.3	36.9	23.9	
Mineral Products excluding Oil	3.1	4.0	2.6	2.6	3.0	2.9	2.8	3.2	2.7	.9	3.1	1.9	1.1	1.1	0.8	2.0	
Foodstuffs & beverages	5.0	4.4	5.7	6.9	8.0	5.9	5.6	5.8	7.6	10.4	11.8	13.3	12.3	12.1	16.6	23.4	
Prepared cloth & footwear	1.2	0.7	0.8	1.3	1.4	1.6	1.1	1.7	3.1	7.4	3.7	7.9	7.8	8.9	11.2	17.9	
Yarn & textiles	18.3	21.3	21.0	22.0	33.1	37.2	43.7	50.3	48.4	61.0	55.0	61.0	69.5	73.3	76.3	103.7	
Furniture & wood products	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.9	1.8	2.9	2.0	2.4	2.6	3.8	
Printed matters	1.0	0.9	1.3	1.3	1.5	1.9	1.9	1.5	1.1	1.9	1.2	2.2	2.2	2.7	1.6	3.6	
Leather & Leather products (except footwear)	0.5	0.5	0.6	0.7	0.6	0.5	0.3	0.6	0.8	1.9	2.4	1.6	2.5	3.2	2.1	2.7	
Rubber and products	0.9	1.1	0.3	0.5	0.7	0.3	0.1	0.1	0.2	0.4	0.5	0.6	0.1	0.1	
Chemical products	0.9	0.9	1.0	1.4	2.0	2.3	1.9	2.5	3.2	4.6	6.4	6.0	6.3	7.2	2.8	12.0	
Petroleum products	2.9	2.1	2.5	4.4	6.8	10.8	9.5	10.3	4.0	4.0	0.8	0.6	2.2	3.1	7.8	26.5	
Construction materials	2.1	2.8	3.3	1.9	1.5	1.7	2.6	2.1	4.1	2.6	2.0	4.7	2.6	4.1	5.0	3.0	
Engineering products	3.0	3.5	2.6	3.2	3.2	4.4	4.3	6.3	6.2	4.9	6.5	8.0	10.2	13.1	9.7	12.7	
Total Manufacture	42.3	46.4	49.1	59.9	76.7	80.1	78.9	89.1	84.4	109.6	105.4	124.6	139.7	151.6	173.4	235.4	

Source: Ministry of Planning.

Table 9. Historical developments in the structure of Egyptian exports of manufactures in selected years
(Percentages of different exports items to total exports of manufactures)

	1959/ 60	1964/ 65	1969/ 70	1971/ 72	73	74
Mineral Products	15	17	8	13	22	11
Foodstuffs & beverages	12	7	11	9	10	10
Prepared cloth and footwear	3	2	8	6	6	8
Yarn & textiles	43	46	52	50	44	44
Furniture & Wooden Products	1	6	2	1	1	2
Printed Matters	2	3	1	2	1	2
Leather & Leather Products (except footwear)	1	1	2	2	1	1
Rubber & its products	2	-	1	-	-	-
Chemical products	2	3	6	4	2	5
Petroleum products	7	13	1	2	4	11
Construction Materials	5	2	2	4	3	1
Engineering Industries	7	6	6	7	6	5
Total	100	100	100	100	100	100

Source: Ministry of Planning.

Table 10. Major Egyptian manufactured exports
(million LE)

	59/60	64/65	69/70	1972	1973	1974
Refined Sugar	1.5	0.2	2.9	1.4	4.1	9.3
Beverages	0.2	0.2	3.0	4.3	5.2	5.4
Crude Oil	3.2	10.5	6.2	20.3	36.9	23.9
Cosmetic	0.2	0.6	4.6	3.7	7.4	10.3
Thin Cotton Yarn	0.3	22.5	28.9	21.5	31.8	49.9
Chick Cotton Yarn	3.5	4.0	3.8	4.8	5.3	5.1
Medium Cotton Yarn	4.1	2.0	3.8	6.5	7.2	10.1
Light Cotton textiles	3.1	5.8	5.8	8.5	9.0	11.9
Heavy Cotton Textiles	4.0	4.1	6.5	8.9	7.7	8.2
Finished Clothes	0.4	1.1	3.8	5.0	5.4	9.6
Underwear and socks	0.4	1.3	1.8	6.8	9.0	12.9
Footwear	0.9	0.3	2.9	4.0	5.8	8.2
Basic Metal Products	0.2	0.4	1.7	5.4	3.4	7.2
Total	22.0	53.0	75.7	101.1	138.2	172.0
% of total industrial exports	54.2	66.2	71.8	66.7	79.7	73.1

Source: Ministry of Planning.

Table 11 shows the developments in the ratio of exports to production. Inspection of the table reveals that some trends in the ratio continued beyond the sixties to the seventies, but some were reversed. The latter group included mining and quarrying, food beverages, and finished clothes and footwear.

In reference to table 12, exports, however, have continued to increase in relation to GDP as well as in relation to industrial value added since 1959/1960.

E. The trade balance and manufactured exports

From table 13, it is clear that Egypt has been a net importer of all industrial products, except for yarn and textiles as well as finished fabrics and footwear during the sixties. In the seventies, Egypt became a net exporter of petroleum products. Inspection of tables 14 and 15 shows that the persistent deficit in the Egyptian balance of trade is mainly due to a lack of sufficient exports from the industrial sector. This means that a deficit will not be easily removed, or at least significantly reduced without greater exports from that sector.

Table 11. Historical development in the ratio of exports to
production of main commodity groups

	<u>1959/60</u>	<u>1964/65</u>	<u>1969/70</u>	<u>1973</u>	<u>1974</u>
Minig & Quarring	38.5	37.8	9.2	38.1	46.5
Food Industries	2.3	3.8	5.5	1.2	1.8
Beverages	2.9	1.7	25.2	20.9	16.9
Yarn & textiles	9.9	16.9	21.0	16.7	19.8
Finished clothes & footwear	4.5	3.6	11.6	13.1	8.5
Wood & industries	2.1	0.4	5.7	6.6	8.8
Leather and prod.	5.7	4.4	15.8	7.1	7.2
Chemical prod.	2.8	2.8	7.2	2.0	6.4
Petroleum prod.	6.2	21.6	0.9	6.0	16.4
Basic Metal prod.	1.1	1.2	3.7	2.9	5.0
Total of engin. prod.	4.3	6.4	6.3	6.3	7.7

Source: Ministry of Planning.

Table 12. Developments in export/GDP and export/industrial value added ratios (at 1959/60 constant prices)

Year	Exports/GDP	Exports/industrial value added
1959/60	3.2	15.8
1960/61	3.2	15.4
1961/62	3.5	16.1
1962/63	3.6	16.8
1963/64	4.5	20.5
1964/65	4.7	21.7
1965/66	4.5	21.2
1966/67	4.9	23.1
1967/68	4.4	21.7
1968/69	5.2	24.3
1969/70	4.7	23.2
1973	6.6	26.6
1974	8.3	34.2

Source: Ministry of Planning.

Table 13. Trade balances for major economic activities or commodity groups
(million LE, at current prices)

Type of Activity	1972		1973		1974		
	I	M	I	M	I	M	
Mining & Quarrying	21.4	18.2	37.7	8.5	25.9	26.7	- 0.8
Foodstuffs & Beverages	12.1	31.0	16.6	18.1	- 1.5	23.4	-27.4
Yarn & Textiles	73.3	9.6	76.3	11.1	+65.2	103.7	+91.2
Finished Fabrics.. & Footwear	8.9	0.1	11.2	0.1	+11.1	17.9	+17.3
Leather & products	3.2	1.8	2.1	3.1	- 1.0	2.7	- 1.0
Rubber & products	0.1	7.7	- 7.6	6.2	- 6.2	-	- 9.4
Wood & products	2.4	22.6	-20.2	11.6	- 9.0	3.8	-27.1
Chemical products	7.2	65.2	-58.0	64.4	-54.6	12.0	-159.2
Petroleum products	3.1	14.6	-11.5	5.4	+ 2.4	26.5	+14.8
Non-metalllic products	4.1	4.1	-	3.6	+ 1.4	3.0	- 2.0
Basic metal products	5.4	30.7	-25.3	24.7	-21.3	7.2	-46.1
Metal products	1.7	7.1	- 5.4	5.7	- 3.8	1.8	-12.0
Non-Electrical Machines	1.6	33.0	-31.4	34.6	-33.7	1.1	-48.9
Electrical Machines	1.2	13.0	-11.8	12.4	-11.7	0.6	-17.6
Transportation Equip.	2.3	31.0	-26.7	35.3	-34.6	1.1	-84.0
Miscellan Ind.	0.7	7.4	- 6.7	8.7	- 6.7	0.8	-11.9
Paper & prod.	2.7	13.4	-10.7	11.8	-10.2	3.6	-29.3

Source: Ministry of Planning.

Table 14. Balance of payments
(million LE)

Year	Balance of Trade Exports	Imports	Balance	Services balance (1)	Overall Surplus (+) or deficit (-)
1959/60	198	264	- 66	+ 40	- 22
1964/65	245	394	-149	+ 82	- 12
1965/66	261	423	-172	- 56	- 15
1966/67	264	414	-150	+ 71	+ 20
1967/68	253	387	-134	- 22	- 50
1968/69	307	384	- 77	- 26	+ 8
1969/70	348	473	-125	- 35	+ 9
1970/71	358	531	-173	- 39	- 63
1971/72	365	656	-191	- 37	- 64
1972	354	559	-205	+ 3	-202
1973	396	622	-226	+ 3	-223
1974	654	1253	-599	+ 66	-533

Source: Ministry of Planning.

Table 15. Comparison between the trade balance of
 manufactures and agricultural products
 (million LE)

Year	Manufactures balance	Agricultural balance
1959/60	-144	+ 96
1964/65	-222	+ 85
1965/66	-284	+ 77
1966/67	-178	+ 59
1967/68	-148	+ 47
1968/69	- 82	+123
1969/70	-151	+154
1970/71	-187	+116
1971/72	-167	+132
1972	-159	+127
1973	- 25	+168
1974	-353	+ 27

Source: Ministry of Planning.

III. SOME ASPECTS OF THE DEMAND FOR EGYPTIAN EXPORTS
OF MANUFACTURES

A. Export subsidies

After the Egyptian withdrawal from the Sterling area in 1947, an effort was launched to stimulate Egyptian exports through, first, the abolishment or the reduction of some export tariffs and, secondly, by allowing a reduction in the exchange rate with the pound to encourage exportation.

Partial depreciation of the Egyptian currency was practiced by several methods. One was the export accounts in which the pound value of Egyptian imports were sold to foreign purchasers of Egyptian goods below the official value, but this practice was subject to limitations. In 1953 Egyptian exporters to certain hard currency countries were given the right to obtain import licences up to a certain percentage of the value of their exports. Such licences were transferable at a certain premium to Egyptian importers. This "import entitlement system" and the above "export accounts" were abolished in 1955. In 1957 an exchange rate premium system was introduced. Under this system, the government bought the export proceeds of hard currencies at a premium, and sold them to importers at the official rates plus those premiums. The premium system, which had been subjected to continuous changes since its inception, finally led a complicated and rapidly shifting system of multiple exchange rates.

In 1961 foreign trade activities were nationalized. Meanwhile, the multiple exchange rate system was abolished gradually, in favour of one exchange rate, and a general rate of 20% ad valorem duty was applied to all import payments and export receipts with few exceptions. Nationalization meant direct governmental control of foreign transactions by all producers; and through that control a system of direct export subsidies evolved, whereby subsidy funds were included in the budgets of public enterprises. Those funds were used to cover losses realized in export activities.

In 1972, the Price Balancing Fund was established with the objective of subsidizing exports facing severe competition abroad, and often where retail prices fall below costs. Before the Fund was established, export

Table 16. Subsidized exports
(thousand LE)

	68/69		69/70	
	Export Revenue $\frac{x}{s}$	Total Subsidy $\frac{s}{x} \%$ (s/x) % ^{a/}	Export Revenue $\frac{x}{s}$	Total Subsidy $\frac{s}{x} \%$ (s/x) % ^{a/}
Food products	1921	320	1069	251
Construction products	4104	1446	2911	1798
Metal Products	1431	2030	2470	2464
Engineering products	1244	679	2459	961
Refrigerators	878	369	1121	320
Automobiles				
Mineral products	1886	514	858	368
Yarn & Textiles	525	94	1757	652
			556	99
				264
				100
				39.1
				28.5
				81
				60
				37.1
				18

a/ This ratio is derived after adjusting the foreign exchange revenue of exports for the foreign exchange spent on import requirements.
Source: Ministry of Planning.

subsidies went mainly to food, construction, metal engineering, and mineral products. As table 16 shows, the highest subsidy ratios (to export revenues), went to metal products. However, when those ratios were adjusted for the import requirements of foreign exchange, automobiles enjoyed the highest ratio in 1969/1970. In 1973 the government decided not to budget any further funds for the export subsidization of manufactures. However, this does not imply the complete cancellation of subsidies, for budgeted subsidy funds had accounted for no more than 15% of actual export losses, i.e. losses borne by public enterprises selling manufactures abroad at prices below cost. At public enterprises, losses on exports are eventually paid for by the government.

A dual market foreign exchange system was inaugurated in 1973. One of the markets is official, within which the pound is exchanged at official rates. The other market contains incentive "exchange rates including premiums for exporters, tourists, and foreign investors. The establishment of this "Parallel Market" provides for a new system of export subsidies. However, it was not clear whether the government would continue to cover export losses of its public enterprises.

B. Export subsidy effectiveness

Food products

Most subsidies of food products go to canned food; (table 17) it is a simple industry whose inputs are basically domestic, which hardly justifies subsidies at such high rates. Some of those subsidies cover losses due to production defects or to products not conforming to specifications. Sometimes products fail to be sold, because they lack the attractive appearance suited for consumer's tastes or little advertizing has been done to promot those products.

Table 17. Details of subsidies to exports of food products
(thousand LP)

Category	68/69		69/70			
	Export Revenue	Total Subsidy S	s/x %	Export Revenue X	Total Subsidy S	s/x %
Canned Products of Nasr Co., Qaha	645	167	27.3	612	143	23.4
Canned Products of Nasr Co., Edfina	286	85	29.7	457	108	23.6
Dried Vegetables, Alex. Drying Co;	415	37	8.9			
Dried Vegetables, Nasr Drying CO.	575	22	3.8			
Total	1921	320	16.7	1069	251	23.5

Source: Ministry of Planning.

Construction material

Most subsidies to construction products have gone to the export of cement. Meanwhile, as table 18 shows all construction products exported had high subsidy/revenue rates.

Direct subsidization of exports of construction materials was stopped in 1970/1971, since there was an increase in domestic demand for those materials, especially for cement. The increase boosted domestic prices, under conditions of import restrictions. High domestic prices afforded producers sufficient profits out of which they could finance their losses in foreign markets. This practice is an implicit subsidy whose burden is placed on domestic consumers, instead of being placed on domestic taxpayers as in the case of direct subsidization.

The wisdom of subsidizing the export of construction materials is doubtful, given the shortages currently appearing domestically. Inspection of table 8 shows that exports of those items was modest in total value despite heavy subsidies. This should imply either very low elasticities of supply or increasing domestic demand. In neither case, are export subsidies justifiable.

Metal Products

The exports of these products are subsidized in two ways. The first is through direct payments to producers. The second is through providing foreign currencies for the producers import requirements at below market prices. Both ways combined, as table 16 shows, produce disproportionately high rates of subsidization for these products.

For the subsidy to be a success, this industry must benefit from economies of scale while reducing its dependency on foreign imports. If efficiency can be reached within a short period, subsidies can be considered justifiable. Otherwise, they must be greatly reduced or completely removed. Exports of metal products enjoyed a significant increase in 1974, but no information is available about the role subsidies may have played in causing that increase.

Table 18. Details of subsidies to exports of construction products
(thousand LE)

Category	68/69		69/70		s/x %	
	Export Revenue	Total Subsidy	s/x%	Export Revenue		Total Subsidy
Cement	3851	1286	33.4	2645	1565	59.3
Asbestos, and Ceramic Pipes	214	127	59.3	230	205	89.1
Bathroom equipment	22	23	104.5	30	20	68.7
Slaked lime	17	9	53.0	7	3	42.9
Total	4104	1446	35.2	2911	1798	61.8

Source: Ministry of Planning.

Engineering products

Many firms in the engineering industry have been in business for fifteen years, nevertheless the industry as a whole is regarded as an infant industry. Although some people have criticized the relatively high subsidy-revenue rates, few have questioned the principle of the subsidy. Those rates have shown some decline, from an average of 54.6% to an average of 39.1%, as table 19 indicates. Such a trend can be related to the greater share of the Socialist bloc in these exports, where export prices are relatively higher.

Some of the components of this category of exports, namely, refrigerators and automobiles are subsidized in another way. These products have high import requirements for which foreign exchange is provided by the government at less than market prices. When all subsidies, direct and indirect, are taken into account, subsidy-revenue rates become excessive, as is shown by table 16. As indicated in table 9 the relative importance of engineering products in total exports has not changed significantly.

Total effectiveness

Significant increases in the absolute levels appear in some of the exports listed in table 8. Yet only food products, yarn and textiles, and engineering products are subsidized. Moreover, table 9 shows only three export items to have gained in relative importance to total exports, namely, prepared cloth and footwear, chemical products, and petroleum products. None of these export items is subsidized. While subsidized export items can be expected to grow along with the other items, they did not show significantly higher growth than did the nonsubsidized items. Also the high rate of subsidy to export revenue for phosphates (table 20) shows the programme's weakness. Export subsidization in Egypt appears to have little economic justification.

Table 19. Details of subsidies to export of engineering products
(thousand LE)

	Export Revenue x	Total Subsidy s	s/x %	Export Revenue x	Total Subsidy s	s/x %
Locks, Shackles, etc.	25.3	14.5	57.3	30	23	76.6
Draining Systems	56	20	35.7	73	19	26
Refrigerators, Furniture,	878	389	44.5	1121	320	28
Autos			"	658	368	60
Bicycles	11.6	9.8	84.5	5.1	7.7	151
Cables	108	53	49.1	147	37	25.2
Rail Road Wagons				20	5	25
Abrasives	4.2	2.1	50	4.6	2.7	58.7
Ship Repairing Prod.	117	163	139	382	168	44
Pipes, toilet equipment and metal sheets.	43	29	67.4	18	11	61.1
Total	1244	679	54.6	2459	961	39.1.

Source: Ministry of Planning.

Table 20. Subsidies to exports of mineral products
(thousand LE)

Category	68/69		69/70		s/x %
	Export Revenue X	Total Subsidy S	Export Revenue Y	Total Subsidy S	
Salt	107	21	86	3	3.5
Phosphate	1781	492	1672	649	38.8
Total	1888	514	1757	652	37.1

Source: Ministry of planning.

C. The Arab World as a market for Egyptian manufactures

The Arab World represents a large market for manufacturers (tables 21 to 23). Engineering products rank the highest followed by clothes and shoes, and then food, beverage and tobacco, for oil producing Arab countries. In the non-oil producing Arab countries, yarn and textiles rank second to engineering products, followed by food, beverage and tobacco. Despite the huge and growing purchasing power of the Arab World, especially in the oil producing countries, all the countries combined account for a small and, from 1972 to 1974, a constant ratio for Egyptian exports (table 7). As a comparison between tables 21 to 23 shows, the Arab World imports of manufactures from Egypt represents an insignificant percentage of their total imports; this illustrates the extent that the opportunities to export manufactures to the Arab World have not been exploited. Comparisons between tables 21 and 23 show the potentialities of stimulating Egyptian exports of manufactures. They can be enhanced by a greater preferential treatment of Egyptian exports through greater regional economic integration of the Arab World.

Table 21. Major imports of the Arab World from all countries
(million \$US)

Category	Oil Producing Countries			Non-Oil Producing Countries		
	1971	1972	1973	1971	1972	1973
Food, Beverages & Tobacco	148	191	205	143	175	232
Extractive Products	22	16	20	122	146	180
Oil Products				15	19	21
Chemical Products	166	184	160	108	147	185
Leather Products				10	7	11
Rubber Products	38	47	37	21	23	30
Yarn & Textiles	66	68	81	183	207	260
Construction Materials	8	26	62	7	8	17
Engineering Products	714	951	1071	457	560	763
Furniture	26	34	29	1	7	1
Clothes & Shoes	150	195	228	25	31	39
Printed Matter	9	12	9	11	15	21

Source: Ministry of Planning.

Table 22. Selected imports of the Arab World from all countries
(million \$US)

Category	Oil Producing Countries			Non-Oil Producing Countries		
	1971	1972	1973	1971	1972	1973
Pharmaceuticals	75	82	56	29	44	53
Cosmetics	27	30	27	24	22	24
Paper Products	45	47	46	40	48	52.
Iron & Steel Products	201	243	323	104	145	209
Metal Products	109	155	155	55	69	86
Engineering Products	714	951	1071	457	560	763
Cars	242	282	349	133	167	229

Source: Ministry of Planning.

Table 23. Imports of the Arab World from Egypt
(thousand \$US)

Category	Oil Producing Countries			Non-oil producing Countries		
	1971	1972	1973	1971	1972	1973
Food, Beverages , & Tobacco	3137	2976	7346	6069	4806	7350
Extractive Products	13	-	-	-	-	-
Oil Products	-	-	-	-	612	-
Chemical Products	689	438	404	433	399	234
Leather Products	-	-	-	74	13	12
Rubber Products	64	36	-	489	133	-
Yarn & Textiles	1848	2097	2174	7720	5504	4229
Construction Materials	715	1886	4255	995	410	127
Engineering Products	1627	2943	1784	641	243	68
Furniture	98	50	91	27	23	-
Clothes & Shoes	284	100	-	423	93	-
Printed Matter	365	1815	828	872	608	586
Others	1216	683	828	1354	594	486
Total	10126	12988	17710	19127	13524	13096

Source: Ministry of Planning.

IV. SOME POLICY ASPECTS RELATED TO THE GROWTH
OF INDUSTRIAL EXPORTS

Growth in industrial exports is a function of three major factors: (a) growth in Industrial Production; (b) the realization of an exportable surplus; and (c) the ability to export this surplus. The latter factor is in turn a function of the quality and cost competitiveness of the commodities to be exported and the capacity and efficiency of the country's export network.

A. Industrial growth

Egypt's industrial sector accelerated its rate of growth after the outbreak of the Second World War, and growth was induced mainly through market stimulus until the end of the Korean War. Since the mid-fifties, industrial growth became increasingly a matter of government policy. Since the sweeping nationalization of the early sixties industry became both owned and controlled by the government, and the private industrial sector was reduced to meagre proportions. Table 24 gives a statistical view of the growth performance of the manufacturing sector.^{1/} As is seen from the table, value-added in manufacturing (at constant 1959/60 prices) increased at a rapid average rate of 8.1% per annum during the period of the first Five Year Plan (1959/60-54/65). Then growth decelerated to an average rate of 1.9% per annum during the period 1954/65-69/70, to rise again moderately in the 1970s. The average rate for the 12 years 1959/71 was 5.3% per annum. However, this latter average rate of growth must be taken with a grain of salt. Because of deficient statistical methods the actual rate of growth may be slightly less.

Given the statistically observed rate as the true one, it would be unsatisfactory given the country's growth objectives. In Egypt the rate of growth of agricultural income has been in the past below 3% per annum, and it is not expected to exceed this level by any substantial margin in the future because of the lack of arable land. Therefore, the burden of growth fall on industry.

^{1/} Occasionally figures will be provided for manufacturing and mining together referred to as industry) whenever separate data for the two sectors cannot be obtained.

Table 24. Growth in the manufacturing sector, 1959/60 - 71/72
(million LE, at constant 1959/60 prices)

Year	Value-added	Date of growth		
		1959/60-64/65	59/60-69/70	59/60-71/72
1959/60	243	8.1%	4.7%	5.3%
1964/65	362	1964/65-69/70	-	-
1969/70	396	1.9%	-	-
1971/72	460	-	-	-
1974	505	1969/70-71/72 4.8%	-	-

Source: Ministry of Planning.

Table 25. Sectoral growth rates

	GNI (1959/60) sectoral shares	Sectoral growth rates (at constant prices - 1959/60 71/72 average	Sectoral contribution to growth in GNI
Agriculture	0.30	2.8	0.86
Industry ^{a/}	0.24	5.8	1.39
Services	0.46	4.9	2.25
	<hr/> 1.00	<hr/>	<hr/> 4.48

^{a/} Includes mining, manufacturing, electricity, and construction.

Source: Ministry of Planning.

As table 25 indicates, the observed rate of growth leads to a rate of income growth of substantially less than 5% per annum. If real income is to double every ten years as is desired by the country's political leadership, this means that real industrial value added must grow at a rate of 15% per annum which is three times the observed rate.

Needless to say, given the small share of industrial exports in total industrial production (circa 5%), industrial exports can, and indeed must, increase at a substantially faster rate than industrial output. It is a rising propensity to export industrial goods that will lift the industrial export coefficient, bringing it first to a par with, and then having it exceed, the corresponding import coefficient. The two principal causes underlying deceleration of growth in industry are the slow growth of capital formation and the scarcity of foreign-exchange.

During the period 1964/65-69/70 real investment in manufacturing declined absolutely (see table 26). It is not surprising, then that during this same period, real manufacturing value-added increased at a low rate of 1.9%. The deceleration in the rate of capital formation was basically an outcome of the 1967 war, a high defense burden, and a scarcity of foreign exchange. The share of gross fixed investment of national income, after having reached the peak level of 18% during the first Five Year Plan period, declined to an average of 10% in recent years.

The seriousness of the decline in the rate of new investment is highlighted by the decline in the ratio of increment investment/labour ratio. While the rate of real capital formation in industry was decreasing, employment was increasing at a steady and accelerating rate. The situation of a declining capital/labour ratio created some problems for the manufacturing sector, including reduction in marginal and average labour productivity, and this trend coupled with rising average money wages led to a sharp rise in the share of wages in industrial value-added and accordingly a decline in "industrial surplus" which is the main source for financing investment (see table 27).

Table 26. Capital formation and employment in manufacturing,
1960/61 - 1972

Year	Investment (constant 59/60 prices millions L.E.)	Employment (000)	Rate of Growth	
			Investment 1960/61-69/70	Employment 1960/61-71/72
1960/61	59	606	1.8%	4.2%
1964/65	71	797	1960/61-71/72	
1969/70	70	888	4.2%	5.1%
1971/72	93	1065	-	-
1974	120	1133	-	-

a/ The year 1960/61 was taken as an initial year since figures for investment in manufacturing alone (i.e. without mining) for the year 1959/60 could not be obtained.

Source: Ministry of Planning.

Table 27. Share of wages in industrial^{a/} value-added, 1959/60 - 1974
(million LE, at current prices)

Year	(1) Value-added	(2) Wages	(2)/(1)
1959/60	256	89	0.35
1964/65	423	150	0.36
1969/70	542	176	0.33
1971/72	591	278	0.48
1974	670	331	0.49

a/ Includes mining and manufacturing

Source: Ministry of Planning.

B. Policies influencing industrial cost and efficiency

In this section, various policies constituting the industrial policy package are examined, concentrating in particular on administration and planning, and including policies on pricing, employment, wages, foreign trade, and investment. After assessing these industrial policies, some inconsistency in their pattern of inter-relation becomes apparent.

Administration and planning

In the 1950s the legal structure of industry was along the conventional lines of proprietorship, partnership and corporate structures. However, in the 1960s groups of industries were combined according to the type of economic activity they engaged in (i.e., horizontally) or by type of inputs (i.e., vertically) into general establishments. In turn, the general establishments were affiliated to the appropriate ministries according to their types of economic activity. The great bulk of industrial establishments fell under the auspices of the Ministry of Industry.

According to this organizational structure, there are three levels for decision-making in public enterprises. The first level is that of the board of directors of the company; the second, the board of directors of the establishment to which the company is affiliated, and the highest level is that of the minister to whose ministry the establishment is affiliated. It is not our intention to embark on any detailed assessments of the functioning of the system. Literature dealing with this point is ample.^{2/}

One of the major deficiencies, however, has been the tendency, in practice, towards centralization with a great deal of power concentrated in the hands of the minister. Two main causes appear to account for the system's built-in tendency to evolve towards centralization. One, the system gives the chairman of the board of directors of the establishment - and ultimately the

^{2/} For a summary of this literature, see S. Iskandar, "The Organization of Industry in Egypt", Research Paper No.3, Survey of the Egyptian Economy Series, (Cairo, Price Planning Agency, 1974)(in Arabic)(unpublished monograph).

minister the right to suggest the names of candidates to be appointed chairman and members of the board of directors of companies whose final appointments are sanctioned by presidential decrees. The second reason is the lack of generally accepted, and explicitly stated, guidelines to assist company managers in making their decisions. Related to this is the lack of objective criteria for evaluating company responsibility. This naturally means that managers must get their instructions from their superiors prior to making new substantive decisions.

Another drawback of the organizational structure of the industrial public sector, which evolved during the 1960s, is the lack of any coordinating mechanism for industrial and intersectoral relations. In a market economy, co-ordination of sectoral policies takes place through the market mechanism. The latter then serves the function of being the nerve system of the economy connecting its various parts together. In a centrally - planned economy, the national plan largely substitutes for the market mechanism. It tells each sector where to get its inputs, and how much to produce, what to do with its product, where to get its needed finance, etc. Needless to say, Egypt's economic plans have not been detailed. Strictly speaking, they have been a combination of investment programming and sectoral forecasts.

In the absence of an operational and efficient price mechanism (whether market derived or planned), Egypt's kind of planning, unfortunately, did not provide the proper co-ordination mechanism. To make up for this basic deficiency in the system, interministerial committees were set up to carry out this function on an ad hoc crisis basis. This kind of ex-post co-ordination proved inadequate. A great deal of inconsistencies among sectoral policies emerged and proved to be increasingly costly in terms of economic efficiency. From the point of view of the industrial enterprise, it found itself having to cope with, and adjust to, employment, foreign trade, finance, price and other policies, which were drawn up in other sectors and ministries, and often inconsistent with one another.

If Egypt's industrial sector in general, and the public sector in particular, is to stand on its own feet domestically and to be able to compete successfully in international markets; its organizational structure must be rationalized and endowed with a greater measure of flexibility.

Two major reforms are needed. One is a return to the spirit of the public sector's initial organizational laws, endowing enterprises with a great deal of management autonomy. If enterprise managers are given more degrees of freedom in making economic decisions related to their enterprises, and if their decisions are not to contradict socially desirable objectives; they must be given guidelines which would aid them in their decision-making process. Secondly, planners should guide the market mechanism, namely through rationally designed price policies in order to make it functional from the point of view of guiding enterprises in making decisions for which the plan provides no guidance. Since Egypt does not have comprehensive material, financial, and price plans, there is no justification to nullify the market mechanism altogether, since there is no other substitute for it in certain respects.

The main burden of providing business enterprises with the needed decision-making criteria falls on planning organs. Plan targets must be realistically determined, and their feasibility and operationally guaranteed. Furthermore, the path to achieve these target must be drafted beforehand. In other words, economic policies having influence on the achievement of plan targets must be discussed and specified, and their consistency with each other and with plan targets tested. It would be preferable if the broad outline of these policies were issued with the plan.

Product pricing

Until the end of the 1950s, industrial prices were basically market-determined with some exceptions here and there, especially with respect to basic commodities. Since the beginning of the 1960s and with the nationalization of industry, industrial price formation became the responsibility of the public sector. The public sector's policy-makers distinguished between those goods whose prices are subject to the "obligatory pricing" laws and those which are not. In the case of the latter, industrial enterprises had the right to increase their prices but naturally only after obtaining the approval of the Ministry of Industry. In principle, the Ministry of Industry consented to price rises, after routine cost checks and if consistent with industry trends.

The broad motive, which influenced the government's industrial price policy, was one of maintaining a stable cost of living in general and stable prices for consumer goods in particular. To achieve the former, a general policy of minimum prices was followed but to achieve the latter a distinction was made among three commodity groups which were mass consumption goods (necessities), luxury goods, and those which fall in between these two groups. In the case of the first, great efforts were exerted to keep consumer prices fixed at a level below their cost of production but in line with the basic needs and purchasing capacity of low income consumers. As for the in-between consumer goods, their prices were in general fixed on a cost-plus basis. Prices of luxury goods were fixed so as to allow a large profit margin which was supposed to contribute to the price subsidization of those commodities sold at below-cost.

With regard to intermediate and capital goods, no mention was made of a clear-cut strategy. However, construction prices were fixed on a cost-plus basis with maximum efforts exerted to keep them stable in order not to affect upwardly the cost and price of other sectors.

The calculation of the cost and price of any commodity starts with calculating the actual cost of inputs and wages. Then profit and trade margins are added. Profit margins usually range between 5 to 10% varying according to type of good and rate of capital turnover. All cost calculations have been carried out according to prevailing prices. Although the price system was oriented more towards achieving certain income distribution objectives, this was done on an ad hoc basis. The outcome was that the price system, which ultimately evolved, was distorted and suboptimal neither expressing the real situation in the economy nor serving the original objectives. This price system was not used to allocate resources within the industrial sector, but it was replaced by other criteria such as feasibility, import substitution, export promotion, availability of external finances, etc. Furthermore, the price system was not supplemented by other economic policies aimed at equating market demand and supply.

It is interesting to note that the above dual price system meant that the industrial public sector was making a transfer payment to the private sector. The private sector has been less restricted with regard to its prices and as to where it sells its products. Thus it obtained its industrial inputs at low subsidized, official prices and sold its products usually higher at

prices reaping, in the process, profits which are not siphoned (or even brought down to normal proportions) through the tax system. The governmental industrial price policy confronted public industrial enterprises with acute accounting problems. Some industries were created or expanded without regard to prevailing prices or to accurate cost calculations. In many cases, all cost elements were allowed to rise except product prices thereby cutting into the surplus or bringing about net losses.

The result of industrial pricing policies on the absolute level of industrial prices since the early 1960's is not known for certain, because the available official price indices are deficient. The main industrial price index is the one that is currently published by the Central Agency for Public Mobilization and Statistics with 1939 as a base year. This index suffers from several major drawbacks foremost among which is that its base year goes back to the pre-second World War period. Since then industrial production has changed drastically in size and composition.

In recent years, the Central Agency for Public Mobilization and Statistics published industrial price indices with a more recent base year (1966/67). However, these indices are worked out for various industrial commodity groups according to various classificatory systems, and no index was made for industry as a whole.

Table 28 gives a clue as to the behaviour of industrial prices in the past fifteen years. The table shows the figures given by the implicit industrial output deflator and also the general wholesale industrial price index with its base year set at 1959/60.

The figures given by the implicit price deflator reflect reality to a larger degree than those of the industrial wholesale price index, which shows a decline in 1971/72. The change in industrial prices indicated by the implicit price deflator is a rather crude indicator since it includes, in addition to changes in prices, errors of output estimation.

However, one can safely conclude that official industrial producer prices increased at least in the order of magnitude of 30 to 50% over the twelve years period of 1959/60-1971/72.

Table 28. Industrial price indices

Year	Output implicit ^{a/} price deflator	Industrial wholesale price inde
1959/60	100	100
1964/65	1.15	1.05
1969/70	1.28	1.16
1971/72	1.31	1.15
1974	1.53	-

^{a/} Obtained by dividing industrial value-added at current prices, by its constant price equivalent.

Source: Ministry of Planning and Central Agency for Public Mobilization and Statistics.

The increase in industrial prices, both relatively and absolutely, has not been a determinant in the past decade or so to the level of industrial exports. The reason is that industrial export policy was influenced more by costs than by final prices^{3/} in many cases, this policy licensed exports at a price below-cost. Such an export price policy was possible in the past when industrial exports were still small in absolute size. However, with the anticipated growth in industrial exports in the future, maintaining such a policy would entail a very high cost for the economy which it would, in all probability, not be able to sustain.^{4/}

It is anticipated that in the future a managed market prices mechanism will be allowed to play an increasing role in allocating resources especially in industry. If this is to be the case then a more rational approach to administering prices must be used. In this regard, a distinction must be made between influencing prices through a price plan or through partial price policies or through executive administration of prices. With regard to the former (i.e. price plan), it may not be feasible because a prerequisite for it would be the existence of comprehensive material and financial balances; such balances are not currently available. The current process of price administration, described above, is not efficient from the point of view of allocating resources, and thus it should be gradually terminated.

This leaves us with the third alternative, and that is the design of price policies to be used, inter alia, as policy instruments in achieving the country's output and income distribution objectives. Such policies must start by estimating optimal accounting prices for production factors and foreign exchange. Such accounting prices might be estimated either through the medium of constructing sectoral or national mathematical programming models or through less formal but rational methods. Estimated factor and foreign

^{3/} Commodities were exported at a below total cost price as long as it covered its foreign exchange cost.

^{4/} Inflationary trends in international markets since the October War 1973 may have dispensed with the need for export subsidies.

exchange prices might be able to replace prevailing prices in cost-accounting and in allocating resources. If these suggestions are adopted, it will hopefully lead to a more efficient allocation of resources, raising productivity and enhancing the competition of the industrial sector position.

Employment and wage policies

At the end of the 1940s the share of wages in industrial value-added was estimated to be 29%. Currently, it has reached a level of over 50%. In other words, over the past two decades the share of wages has risen by over two-thirds. The faster growth of wages relative to value-added was the product of both employment and wage policies. During the 1950s most of the unneeded surplus labour was absorbed in government services. Pressures on the private industrial sector, which was still privately owned and controlled to lend the government a hand in absorbing part of this surplus labour was both minimal and indirect. However, since 1961 the government became formally committed to a policy of full employment for graduates of institutions of higher education seeking employment. The task of allocating those graduates among various establishments in government and business (mainly public) was assigned to the Ministry of Labor. For unskilled labor, there was no commitment on the part of the government to provide employment. To minimize unemployment among this group public employment offices were established. All employers were required by law to supply these offices with information concerning job vacancies. At the same time workers looking for jobs and registered in those offices were allocated to available jobs according to priorities relative to their registration date. While this system did not achieve full employment among unskilled workers, it attempted to allocate available jobs among them according to an equitable criterion.

The main problem with this system is that it spread disguised unemployment from the agricultural and services sector to the industrial sector. This meant creating an additional type of industrial cost in the form of an unemployment subsidy. Furthermore, labour was not allocated in a way so as to achieve maximum productivity.

C. Factors having a major bearing on industrial cost

Scarcity of foreign exchange

Looking at the composition of imports by commodity and its pattern of change, it is evident that by the late sixties, industrial consumer goods imports had dwindled to less than LE 10 million. On the other hand producer goods had soared sharply. Capital goods imports alone had reached a level of over LE 100 million. Unfortunately, the growth in total imports greatly surpassed the country's ability to import. With foreign debt, resulting from a cumulative deficit in the balance of trade, reaching a high level and approaching the ceiling imposed by the country's debt-servicing capacity, it became imperative to reduce imports to the bare minimum. However, the commodity structure of imports had become very rigid and hard to change without affecting production and growth. Imports came to consist exclusively of food, mainly wheat and producer goods. With domestic food supply being quite inelastic the reduction of food imports had to be excluded. The demand below its prevailing low level was undesirable from both the human and political points of view. On the other hand, reducing producer goods imports would mean a reduction in the rate of capital formation and capacity utilization in existing industries. By the early seventies, the share of investment in GNP had declined to a little over 10% after having reached a peak level of 18% in the early sixties, and the Ministry of Industry estimated capacity under-utilization in enterprises under its auspices as an amount equivalent to LE 232.0 million in 1973. According to the Ministry of Industry, this under-utilized capacity was due solely to insufficient foreign-exchange allocations designed to import raw materials, intermediate inputs and spare parts. The Ministry of Industry estimated the foreign-exchange requirements needed to achieve full capacity utilization to be LE 60 million, which if taken at face value would mean that the average productivity of these imported inputs in industry would be four times its value in domestic terms. Industrial enterprises also suffer from low foreign-exchange quotas allocated for renovation and replacement of existing capacity, and this factor has had a detrimental affect on industrial production as evidenced by many work stoppages.

Problems related to import and export systems and prices

The lack of the necessary imported intermediate inputs contributed indirectly to the rise in industrial costs because it led to capacity under-utilization. There were also three reasons for rises in the cost of imports to industrial users. First, with the prevailing inflationary spiral in international markets, the price of most imported inputs had been rising sharply. Secondly, freight and insurance rates had been rising, and the latter showed sharp gains, during periods of military or political crises in the Middle East. Thirdly, customs duties on all imports had been rising. All these factors led to a rise in the average price of imports of about 50% during the decade of the sixties.

Another important contributor to the rising cost of industrial imports has been the rising share of supplier credits in the total foreign-exchange budget of industrial enterprises. The practice forces enterprises to depend on certain foreign suppliers, and prices offered are usually higher than those of other competitive producers of such products who are not willing though to provide credit facilities to the purchases.

In contrast to gains in prices of imports, the prices of Egyptian industrial exports have been declining, quite often to a level below cost for two reasons. One, textiles, which by far represent Egypt's most important export item, have been facing an unfavourable export market. Serious competition from synthetic fibres, especially in Western markets, required substantial price concessions on the part of Egypt, if they were to maintain or expand their exports. Egypt's foreign trade statistics show that each year it had to export a progressively larger quantity of textiles to obtain the same proceeds as the previous year. Secondly, Egypt's infant industrial export system has not been advancing rapidly enough to keep down costs.

V. CONCLUSIONS

We have estimated an annual deficit in the balance of commodity trade amounting to at least 15% of GDP for Egypt for the period under study. The actual performance of Egyptian exports of manufactures has been mixed. On the positive side, their growth has been the principal mover behind the growth of total exports during the sixties and has continued to be relatively high during the seventies. The relative importance of manufactures to total exports rose from 16% in 1960 to around 40% of total exports in the seventies. On the negative side, Egypt has been a net importer of all industrial products, except for yarn, textiles, finished fabrics, and footwear, and, in the seventies of petroleum products.

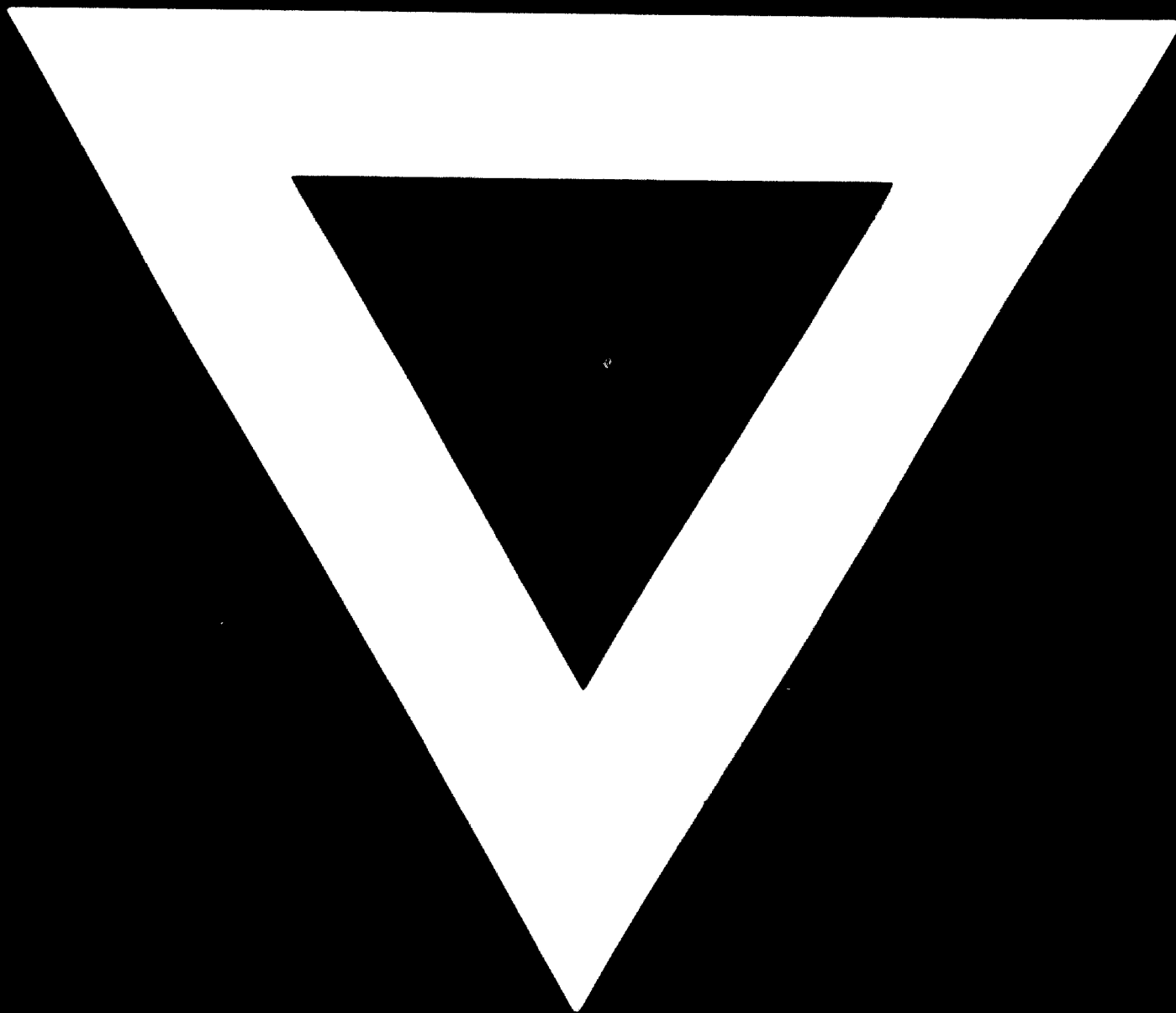
On the demand side, we have attempted to evaluate Egypt's commercial policies, mainly export subsidization as a stimulant to foreign demand, however, such policies have had little bearing on export revenues and probably should not be relied upon as a promotional force.

The potentialities for the exports of Egyptian manufactures to Arab markets are very great, especially the oil-producing countries. Yet, only about 8% of Egyptian exports of manufactures went to its Arab neighbors. The potential demand is there and could be better utilized when economic integration in the Arab world is realized.

Growth in the output of the manufacturing sector has been modest in relation to goals. In view of the small proportion of industrial to total exports, manufactured exports should be increased. Increases in output can be improved through a faster rate of capital accumulation and the alleviation of foreign-exchange scarcity for needed industrial inputs. The supply of manufactured products has been hindered by administrative and planning complications and by the use of a pricing system designed for objectives of income redistribution rather than for efficient allocation of resources. Many employment policies are difficult to justify as well. Output can be improved by more effective and less complicated planning and administration, by more rational employment policies, and by reaching the objectives of income redistribution through means other than the manipulation of industrial prices.



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