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EGYPT

A new era of industrial co-operation*

Prepared by the
Regional and Country Studies Branch

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1. INTRODUCTION: CHANGING POLICY FRAMEWORK FOR ARAB CO-OPERATION

During the last few decades Egypt's economy has been fundamentally influenced by changing economic policies, and the succession of three regimes with different socio-economic approaches. The recent readmission of Egypt to the Arab League (1989) after ten years of absence opens new prospects for Arab co-operation.

During the period 1954-1970, policies focussed on the introduction of state ownership, land reform, Egyptianization and the nationalization of the Suez Canal Company. A dominant public sector emerged covering the major sectors of the economy (banking, insurance, transport, major trading, mining and even agriculture). By the late 1960's, public enterprises were built up particularly in the iron and steel and other heavy industries. Prices, purchasing and profit margins were strictly regulated.

This centralized economic policy approach was changed in 1974 with the introduction of the "open door" policy through Law 43/74 which provided incentives and support to foreign and domestic private investment. The second half of the 1970's witnessed spectacular improvements in economic performance. Real GDP rose by an average of over 9 per cent annually between 1974 and 1981. Yet the spectacular performance of the 1970's was based more on an unprecedented increase in revenues from oil sales, Suez Canal revenues, tourism receipts and workers remittances than on the fruits of the open door policies. In fact, Law 43/74 companies restricted their activities mainly to the services sector - particularly banking which witnessed the establishment of over 50 branches and joint ventures by foreign banks.

In 1981, a new investment law was adopted which gave Egyptian private investors most of the privileges of foreign investors, who in turn were allowed to take majority holdings in companies and promised quick decisions on their investment projects. Yet, the public sector continues to dominate the economy in the current Five-Year Plan (1987/88 - 1991/92) although its investment allocation has declined to 62 per cent from 76.5 per cent in the previous Five-Year Plan (1982/83-1986/87). More recently the policy debate has focussed on reform of public sector industries and privatization.

Underneath these changes are important physical constraints: there is a large and rapidly growing population, with limited land resources available for agricultural expansion. Reduced employment opportunities forced people from the country into already overcrowded cities which resulted in social and environmental problems and accelerated the emigration of skilled human resources. By 1983, 3.3 million Egyptians were working abroad, mainly in Arab oil countries. The downturn of the oil industry caused the return of many Egyptians and by 1986, the number of Egyptians working abroad had fallen to about 2 million.

Egypt's main hard currency earners are workers remittances, petroleum, the Suez Canal and tourism. Arms sales have also become a major contributor to foreign earnings. Commodity exports remain comparatively low and its promotion could not benefit from the access to the rich Arab market between 1974 and 1989.

The return of Egypt to the Arab League will certainly provide precious opportunities for increased trade and finance and open new avenues of industrial co-operation within the Arab world.

2. THE ECONOMY OF EGYPT

2.1 Recent economic trends

The growth performance of the Egyptian economy in recent years has deteriorated mainly as a result of a sharp decline in external revenues from petroleum which fell from \$2.4 billion in 1985/86 to less than \$1 billion in 1986/87. The average annual growth in GDP for the period 1984-1988 stands at 3 per cent. Real GDP grew by 2.7 per cent in 1988. Preliminary estimates for 1989 reveal that the expected growth rate will not be higher, confirming an adverse trend which started in 1981/82.

Although other sources of external income grew significantly between fiscal year [FY] 1986/87 and FY 1987/88, Egypt could not accommodate the sharp increase in imports. Exports rose from \$2.3 billion in FY 1986/87 to \$3.3 billion in FY 1987/88 (i.e. 45 per cent increase). Suez Canal income rose from \$1,148 billion to \$1,269 billion (i.e. 10.5 per cent increase). Tourism results more than doubled, increasing from \$380 million in FY 1986/87 to \$884 billion in FY 1987/88. Workers' remittances showed a significant increase from \$3,012 billion to \$3,385 billion during the same period.

Imports, however, could not be contained, increasing from \$7,323 billion in FY 1986/87 to \$9,179 billion in FY 1987/88 mainly as a result of the continuation of guaranteed supplies of staple foodstuffs at highly subsidized prices.

The overall economic situation of the past few years is characterised by a continuous decline and weak economic performance. Current account receipts grew by only 4 per cent per annum, while current external outflows rose by 6 per cent per annum. Imports grew faster than exports, though capital goods imports fell by 6 per cent per annum. Net capital inflows increased slowly by only 5 per cent per annum between FY 1980/81 and FY 1984/85, while debt service payments from previous loans mounted, and arrears in debt payment began to accumulate. Fiscal revenues grew slowly, falling in relation to GDP, from 43 per cent in FY 1980/81 to 35 per cent in FY 1984/85. Public expenditure remained at 58 per cent of GDP. Public savings declined by almost 50 per cent and the budget deficit rose to 24 per cent of GDP by 1984/85.

A further decline in oil prices by 50 per cent between January and June 1986 dramatically worsened the economic outlook leading to virtual stagnation in GDP in 1986. Egypt faced increasing difficulties in meeting its mounting debt service payments. Total debt in 1987 stood at \$40,369 billion, representing 117.6 per cent of GDP, and a debt service of \$1,927 billion.

As a result the deficit on the current account balance reached its peak in 1985/86 (\$1.6 billion). Drastic measures to contain imports were adopted and the current deficit declined significantly from \$924 million in 1986/87 to \$554 million in 1987/88. These figures, however, did not include overdue debt payments, the service of which will cost more than \$500 million in fiscal year 1989/90.

The origin of payments difficulties dates back to early 1987 with the failure of a previous economic stabilisation programme agreed with IMF. In May 1987, the Paris Club agreed to reschedule \$6.5 million of its debt. Egypt could not adhere to its commitments partly because the expected new credit from the international community did not materialise. By 1988 it became inevitable to negotiate a new agreement with the IMF. The situation requires a sustained, rather than piecemeal, process of reform without which the country's economy will face serious constraints.

2.2 The structure of Egypt's economy

Egypt's population is today well over 50 million and growing by 2.7 per cent per annum. Almost half of this growth is concentrated in the greater Cairo area and the delta where industry and services are concentrated. With a GNP per capita of \$700 in 1986, Egypt is classified as a lower-middle-income developing country. A significant change in economic structure took place after the mid-seventies with the emergence of oil and the Suez Canal as dominant sources of external income. In 1973, oil represented less than 4 per cent of GDP. It increased substantially reaching 18 per cent of GDP in 1981/82 and declining to 10.4 per cent in 1984/85 period. The Suez Canal was reopened to traffic in 1975 and its output share reached 2.5 per cent in 1984/85.

A significant decline in the share of agriculture in GDP occurred between 1965 and 1987 from 29 per cent to 21 per cent. However, this did not imply an absolute decline in agricultural output but rather the impact of the recent surge in oil and Suez Canal earnings on the economy (table 1).

Table 1: Distribution of gross domestic product, 1965 - 1987
(per cent)

	1965	1987
Agriculture	29	21
Industry	27	25
Manufacturing	-	14
Services, etc.	45	54
Total GDP (\$ million)	4,550	34,470

Source: The World Bank, World Development Report 1989.

Despite its relative declining share in GDP, agriculture remains the most important sector of the economy. The annual increase in agriculture hovers around 2.5 per cent, lower than the population growth rate of 2.7 per cent. This has resulted in increasing agricultural imports which have reached about

\$4 billion a year. Egypt is currently importing more than two-thirds of its wheat and vegetable oil, about half of its sugar, and one third of its feed-corn. Agricultural planners have given high priority to extending the arable land through huge and costly land reclamation programmes which proved very costly and produced low yields. The alternative of shifting the product-mix of agricultural output could lower the burden of food imports, and provide high value added crops for export.

The share of manufacturing in GDP has fallen from 16.2 per cent in 1973 to 12.8 per cent in 1984/85. This however does not reflect a decline in absolute terms, but rather a stagnation in output during the period. By 1987, the share of manufacturing in GDP increased to 14 per cent.

Apart from oil and gas, mineral industry continues to be relatively small. Only iron and phosphate rock are available in significant quantity. The share of services in GDP witnessed a sharp increase from 45 per cent in 1965 to 54 per cent in 1987.

Table 2 shows the important role of agriculture in terms of employment, employing 33.2 per cent of the total labour force in 1984/85, compared with a share of only 18.8 per cent of GDP. In contrast industry employed 12.8 per cent for 12.8 per cent of GDP; petroleum and gas activities 0.6 per cent for 10.40 per cent of GDP, and the Suez Canal only 0.1 per cent with 2.5 per cent contribution to GDP.

Table 2: Distribution of employment, 1973-1984/85
(in thousands)

	1973				1984/85			
	Public	Private	Total	Per cent	Public	Private	Total	Per cent
Agriculture	-	4164	4164	47.0	-	4248	4248	33.2
Petroleum & gas	16	-	16	0.8	25	-	25	0.19
Electricity	35	-	35	0.4	77	-	77	0.6
Industry	590	492	1082	8.2	882	764	1646	12.8
Construction	224	78	302	3.4	576	196	772	6.0
Suez Canal	-	-	-	-	11	-	11	0.08
Transport	314	88	402	4.5	367	103	470	3.6
Services	1322	1527	2859	32.3	3257	2288	5545	43.3
(of which Government services)					(2819)		(2819)	
Total	2501	6349	8860		5195	7599	12794	

Source: Egypt, Review of the Finance Decentralised Public Sector, World Bank, March 1987.

Table 2 also shows the increasing role of service activities which rose from 32.3 per cent to 43.3 per cent in terms of employment, and from 40.1 to 44.6 in terms of share in GDP.

The share of savings in GDP rose from 10 per cent in 1974 to 20 per cent in 1980/81 and started to decline sharply thereafter. In 1985/86 it had fallen to 6.6 per cent. Investment rose from 23 per cent to 30 per cent during the same period, but declined to 24.6 per cent of GDP in 1985/86.

Egypt's principal exports are oil and oil-related products, cotton, textile and aluminium. Petroleum products constitute nearly 70 per cent of total exports. Exports are mainly destined to OECD countries, with Italy being the principal export partner.

The main imports include food (24 per cent of total imports in 1986), machinery and transport equipment (28 per cent), other manufactured products (39 per cent) and other primary commodities (7 per cent). The main origin of imports are the developed market economies, with the US¹ and the Federal Republic of Germany being the main import partners of Egypt.

The country's merchandise balance has been deeply in deficit in recent years. A large part of the deficit is funded by workers' remittances. Overall, there is a persistent current account deficit (estimated at \$554 million in 1987/88). In the absence of reserves, Egypt's external payments had to be balanced by capital inflows. In recent years Egypt has been favoured with both foreign direct investment and other long-term capital inflows.

Egypt started to accumulate arrears in payments of both interest and capital on foreign debts as early as 1980. This led to a debt rescheduling in May 1987 of some \$3 billion in unpaid obligations for 1986/87 and earlier. The collapse of the 1987 standby credit is expected to result in a new round of negotiations with IMF before the end of 1989.

3. STRUCTURE AND PERFORMANCE OF THE MANUFACTURING SECTOR

3.1 Overview of the manufacturing sector

With limited agricultural potential, but with a well-educated urban population, Egypt turned to industrialization at an early date. In the 1970s and early 1980s, industrial production grew at annual rates of 10 per cent or more but growth slowed down after 1983, increasing by some 7 per cent in 1985/86 and 1986/87. Industrial exports grew from 5.1 per cent of total exports in 1981/82 to 8.2 per cent in 1986/87.

During the current Five-Year Plan, industry (including non-hydrocarbon mining) is expected to increase its share of gross domestic product from 15.6 per cent in 1986/87 to 17.9 per cent by 1991/92. Of the E£12.26 billion envisaged for industrial investment during the current plan, 52.5 per cent are expected to come from the private sector and 47.5 per cent from the public sector. Some 1.7 million people are employed in industry and mining, compared with 4.3 million in agriculture.

3.2 Structural changes in the manufacturing sector

In 1966/67, manufacturing already exhibited a fairly diversified structure. The respective shares of the main subsectors were as follows:

- Textiles and wearing apparel	38.0 per cent
- Food	12.1 per cent
- Chemicals	10.8 per cent
- Machinery and transport equipment	11.1 per cent

These four subsectors represented about three-quarters of the total value added of the manufacturing sector. By 1987 these four subsectors still accounted for 70 per cent of MVA (table 3).

Table 3. Distribution of manufacturing value added,
1970 and 1986
(percentages, based on current prices)

	1970	1986
Manufacturing value added (million, current US dollars)	-	4,388
Food products	17	20
Textiles and clothing	35	27
Machinery and transport	9	13
Chemicals	12	10
Others	27	31

Source: World Development Report, 1989, The World Bank.

The striking feature of the industrial structure in Egypt is the persistent dominance of the textile industry the origin of which dates back to the post-war era. Textiles retained, and sometimes increased, its very large share of both value added and employment in Egyptian manufacturing despite the continuous shifts away from consumer goods industries towards heavy industries that occurred during this period.

Table 4 presents the contribution of 28 subsectors of manufacturing to manufacturing value added [MVA] during the period 1977 to 1986. A close examination of the four main subsectors shows a very similar distribution of MVA in 1967 and 1977.

The major changes that occurred after 1977 were mainly (table 4):

- a relative decline of textiles and wearing apparel from 36.2 per cent in 1977 to 25.2 per cent in 1986;
- a rapid increase in food processing MVA from 16.2 per cent in 1977 to 25.4 per cent in 1986.
- progress in chemicals production (from 10.1 per cent in 1977 to 14 per cent in 1986) and machinery and transport equipment (from 10.1 per cent in 1977 to 14.1 per cent in 1986).

As a whole, these four main subsectors represent 74.7 per cent of total MVA for the year 1986 according to UNIDO estimates.

Other noticeable subsectoral developments are: pulp and paper, where the MVA share has fallen from 2.3 per cent in 1977 to 1.3 per cent in 1986; plastic products which increased slightly from 1.7 per cent in 1977 to 2 per cent in 1986; other metallic products, which fell from 6.5 per cent in 1977 to 4 per cent in 1986; iron and steel, with a widely fluctuating share reaching 4.4 per cent in 1986; and non-ferrous metals showing a stagnation of around 3.2 per cent in 1986.

The nine subsectors considered represent as a whole 97.3 per cent of the total MVA.

3.3 Performance and efficiency

The industrial sector (manufacturing and mining) accounted for 16 per cent of GDP in 1981/82, 10 per cent of total commodity exports and 12 per cent of total employment (see table 5). Its share in GDP has fallen further to 14 per cent in 1987.

The continuous decline in industry's share of GDP and exports partly reflects the impact of the surge in petroleum sector's activity in Egypt, but also the rapid expansion of the service sector (trade, finance, government and private services) (see table 6). This trend persisted in recent years with a continuous progression of services in the economy (45 per cent in 1967 and 54 per cent in 1987).

TABLE 4: COMPOSITION OF MANUFACTURING VALUE ADDED (AT 1980 PRICES), 1977-1986
(PERCENTAGE)

EGYPT

1989/04/19

Description (ISIC)	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
TOTAL MANUFACTURING(300)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Food products(311)	16.2	18.1	17.5	17.4	19.4	19.3	22.2	21.8	23.3	25.4
Beverages(313)	0.8	0.6	0.6	0.8	1.0	0.7	0.8	0.7	0.8	0.9
Tobacco(314)	0.9	1.0	1.1	1.2	1.2	1.1	1.0	1.2	1.1	0.9
Textiles(321)	36.0	31.5	29.6	28.6	28.9	31.3	27.6	27.3	25.7	25.2
Wearing apparel,except footwear(322)	0.2	0.3	0.4	0.4	0.4	0.3	0.3	0.3	0.2	0.2
Leather products(323)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Footwear,except rubber or plastic(324)	0.7	1.0	1.2	1.2	1.2	0.9	0.9	0.8	0.7	0.5
Wood products,except furniture(331)	0.5	0.5	0.6	0.5	0.6	0.7	0.9	0.9	0.8	0.8
Furniture,except metal(332)	0.2	0.3	0.3	0.4	0.4	0.5	0.6	0.7	0.6	0.8
Paper and products(341)	2.3	2.4	3.4	2.4	1.0	0.9	0.9	1.1	1.1	1.3
Printing and publishing(342)	2.9	2.8	2.5	2.2	1.5	1.4	1.1	0.8	0.7	0.4
Industrial chemicals(351)	1.9	2.1	2.4	2.7	2.7	2.7	2.8	2.6	2.6	2.6
Other chemicals(352)	4.3	4.6	5.2	5.8	6.1	6.0	5.5	5.9	5.9	6.6
Petroleum refineries(353)	2.4	2.7	2.8	2.8	2.7	2.7	3.0	3.2	3.0	3.1
Misc. petroleum and coal products(354)	1.5	1.6	2.8	2.9	2.7	2.8	2.6	2.5	2.2	1.7
Rubber products(355)	1.0	1.0	0.9	1.1	1.0	0.9	0.9	1.0	1.1	1.1
Plastic products(356)	1.7	1.7	1.6	1.9	1.8	1.6	1.1	1.7	1.9	2.0
Pottery, china, earthenware(361)	0.5	0.4	0.3	0.3	0.3	0.2	0.3	0.3	0.2	0.3
Glass and products(362)	1.4	1.3	1.0	1.0	0.8	0.7	0.7	0.7	0.7	0.9
Other non-metallic mineral prod.(369)	6.5	5.8	4.4	4.4	3.7	3.2	3.3	3.3	3.2	4.0
Iron and steel(371)	4.6	4.6	4.5	5.0	4.5	4.5	3.7	4.1	4.1	4.4
Non-ferrous metals(372)	3.3	3.3	3.3	3.6	3.3	3.3	2.6	3.0	3.0	2.2
Fabricated metal products(381)	2.0	2.1	2.5	2.4	2.9	2.5	2.6	2.6	2.6	2.7
Machinery,except electrical(382)	2.3	3.1	3.0	3.0	2.8	2.9	2.8	2.8	3.6	3.7
Machinery electric(383)	2.4	3.4	3.8	3.9	4.2	4.2	4.0	3.3	3.4	3.3
Transport equipment(384)	3.1	3.2	3.9	3.6	3.6	4.2	4.0	3.5	3.3	3.3
Professional & scientific equipm.(385)	0.3	0.2	0.2	0.2	0.4	0.4	0.4	0.3	0.3	0.3
Other manufactured products(390)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
TOTAL MANUFACTURING IN MILLIONS US \$	2888	2823	2831	3052	3292	3658	4047	4405	4935	5165

Source: Statistics and Survey Unit, UNIDO. Based on data supplied by the UN Statistical Office, with estimates by the UNIDO Secretariat.

Note: TOTAL MANUFACTURING is the sum of the available components and does not necessarily correspond to ISIC 300 total.

**Table 5: Relative importance of industry in the Egyptian economy
1960/61 - 1987
(in percentages)**

	1960/61	1973	1981/82	1987
Share of total GDP (at factor cost)	20.1	18.7	16.2	14
Share of total commodity exports	20.0	31.6	10.0	-
Share of total employment	10.0	12.6	12.7	-

- Source:**
- (a) Arab Republic of Egypt: Current Economic Situation and Growth Prospects, World Bank, October 1983;
 - (b) R. Mabro and S. Radwan: The Industrialization of Egypt, 1939-1973, Claredon Press, Oxford, 1976.
 - (c) World Development Report, World Bank 1989.

**Table 6: Relative performance of the industrial sector 1953/54 - 1981/82
(average real growth rate per annum)**

	Industrial value-added	Non-oil GDP	Services value-added	Manufactured exports
1953/54 - 1963/64	7.2	7.2	5.0	5.6
1963/64 - 1974	3.9	4.1	4.0	5.0
1974 - 1979	7.1	8.3	11.3	0.5
1979 - 1981/82	9.2	7.9	10.1	-20.0

- Source:**
- (a) R. Mabro and S. Radwan, op. cit.;
 - (b) Khalid Ikram: Egypt, Economic Management in a Period of Transition, Johns Hopkins Press, Baltimore, 1980.
 - (c) Arab Republic of Egypt: Current Economic Situation and Growth Prospects, World Bank, 1983.

The manufacturing sector suffers from considerable inefficiency despite the substantial investment allocated (over a quarter of gross fixed capital formation although MVA is currently around 14 per cent). A diversified and efficient industrial base capable of competing effectively in the world market did not emerge.^{1/}

The highest rates of total factor productivity growth were obtained during the period 1973-1981/82. Productivity analysis conducted by the World Bank for four manufacturing subsectors of the public sector (see table 7) showed that these results were closely linked to a better capacity utilisation due to the surge in the availability of foreign exchange which enabled importation of key industrial raw materials and spare parts. The subsequent decline of external income from petroleum, workers' remittances and the Suez Canal after 1983 constituted a difficult environment for improving capacity utilisation and productivity. Another factor adversely affecting productivity and efficiency improvement is related to the selection of industrial projects.

Table 7: Total factor productivity analysis for public industries under Ministry of Industry, 1973 to 1981/82 (in percentage)

	Textiles	Food	Chemicals	Metallurgical and Engineering
<u>Growth rate of value-added</u>	4.90	7.50	12.70	9.30
labour input	1.50	1.40	5.80	4.30
Capital input	1.20	1.30	3.40	5.10
<u>Total factor productivity Change</u>	3.54	6.15	8.71	4.51
<u>Contribution to value-added growth by:</u>				
Labour input	17.0	18.0	15.0	18.0
Capital input	11.0	10.0	18.0	33.0
Total factor productivity change	72.0	82.0	67.0	49.0

Source: Arab Republic of Egypt. Current economic situation and Economic Reform Programme. World Bank, October 1986.

1/ Arab Republic of Egypt, Current Economic Situation and Economic Reform Programme, World Bank, 22 October 1986.

A domestic resource cost (DRC) assessment by the World Bank (table 8) indicates that the broad ranking of activities in terms of comparative advantage is as follows: food processing, textiles, metals and chemicals. New investments concentrated mostly on metals and chemicals, where Egypt does not have comparative advantage. In a dynamic context, however, productivity gains could ideally offset the lack of comparative advantage. Productivity improvements were indeed large and did contribute towards offsetting the negative impact of investments in which Egypt lacked comparative advantage. In some cases these gains were large enough to offset the lack of efficiency at the initial stages. But in many cases, particularly investments pertaining to basic chemicals, metals and transport equipment productivity gains were not sufficient and these projects have remained inefficient.

3.4 Trends in major subsectors

Textiles: One of the country's oldest industries, producing long-staple and extra-long staple cotton. The industry is increasingly using synthetic fibres to boost high grades cotton exports. Currently, the textile and clothing industry as a whole accounts for around 27 per cent of MVA.

The Government has embarked on a three-stage rehabilitation programme of the cotton-ginning industry costing \$40.4 million and assisted by a \$18.5 million loan from the International Development Association [IDA]. The Arab Fund for Economic and Social Development is lending Egypt \$40 million to finance a spinning and weaving project at Kafr ed Dawar and Bayda. Large public firms produce more than 80 per cent of the total output (spinning and weaving).

Food products: The food industry is the leading activity in terms of comparative advantage in Egypt. Competitive food products in international terms include sugar, alcohol, biscuits, jams, edible oil, yeast and soft drinks. Less competitive products comprise tobacco, processed vegetables and fruits, chocolate, confectionary and salt. Currently, food production accounts for around 20 per cent of MVA.

A sizeable part of food production is exported (nearly 40 per cent of locally produced selected fruits and jams are exported, mostly to Arab countries). Yet, Egypt is not self-sufficient in food production except in rice and is importing around half of its food consumption.

Chemicals: Egypt has achieved self-sufficiency in some chemical products such as sulfuric and hydrochloric acid, and industrial gases, such as oxygen, hydrogen, carbon dioxide, nitrous oxide, acetylene and freon gas.

Both paper and rubber production from public sector industries has stagnated. Strong demand for pulp and paper has outstripped the ailing industry.

Soap and detergents output has been increasing rapidly. Some 90 per cent of Egypt's soap is produced by the public sector. The demand is expected to reach 900,000 tons in 1989, and it is envisaged that local producers could meet over three quarters of the demand.

**Table 8: Measures of static efficiency
of public sector industries**

	DRC (aggregate)		ERP overall
	Historical cost ARI = 6% ^{a/}	Replacement cost ARI = 10% ^{a/}	
Textiles:			
Cotton textile	0.629	0.889	-28.10
Other textile	0.994	1.281	35.47
Food:			
Edible oils	0.566	0.843	-93.97
Manufactured food	0.314	0.516	-69.73
Alcohol, beverage, tobacco	0.395	0.562	4.61
Chemicals:			
Paper	1.714	2.803	88.90
Basic	1.938	3.457	45.35
Miscellaneous	-0.651	-1.156	NVAWP ^{b/}
Metals:			
Basic metals	-27.558	-45.146	NVAWP ^{b/}
Transport equipment	-6.431	-8.467	NVAWP ^{b/}
Electrical machinery	0.591	0.800	9.30
China and glass	-3.931	-5.431	NVAWP ^{b/}

a/ ARI = accounting rate of interest.

b/ Negative value-added at world prices.

Source: Arab Republic of Egypt: Issues of Trade Strategy and Investment Planning, World Bank, January 1984; pp. 280, 294.

Demand for paints and varnishes is growing, boosted by a strong demand for housing and construction. Local production accounts for around 90 per cent of consumption.

The highest demand is represented by agricultural chemicals particularly nitrogenous and phosphatic fertilizers.

Substantial expansion of capacity throughout the 1970s allowed nitrogen fertilizer production to almost quadruple between 1970 and 1980 from less than 120,000 tons in 1970 to over 400,000 tons in 1980. In 1986, production reached 615,000 tons compared with domestic consumption of 700,000 tons.

Phosphate fertilizer production increased from 93,800 tons in 1970/71 to 138,400 tons in 1985/86. This compares with growth of domestic consumption from 44 tons to 198,200 tons during the same period.

Table 9: Nitrogen fertilizer production/consumption
1970/71 - 1985/86
 (thousand tons N)

	1970/71	1975/76	1980/81	1985/86
Production	118.1	144.6	400.5	615.0
Consumption	330.8	388.2	554.0	700.0

Source: Fertilizer International No. 254, October 1987.

Table 10: Phosphate fertilizer production/consumption
1970/71 - 1985/86
 (thousand tons P₂O₅)

	1970/71	1975/76	1980/81	1985/86
Production	93.8	85.9	93.6	138.4
Consumption	44.0	65.0	102.0	198.2

Source: Fertilizer International No. 254, October 1987.

Egypt's pharmaceutical industry, the most advanced in the Middle East, achieved a sales turnover of \$800 million in 1985. The medical equipment market has grown at an average rate of 20 per cent during the first half of the 1980s.

Heavy industries: The development of heavy industry projects established in the 1970s continues. The first stage of the expanded HELWAN Iron and Steel complex was finished in 1973 and further growth to an annual capacity of 2.6 million tons is planned. The Nag Hammadi aluminium complex, using Australian and Guinean bauxite with an initial capacity of 40,000 tons, is now about 170,000 tons per year. In 1988, the USSR agreed to undertake a three-year project to modernise the Nag Hammadi Plant and to increase its production to 200,000 tons. Other heavy industrial plants are concentrated in iron and steel and construction industries including iron plates, a steel pipe plant, a glass factory. The Alexandria National Steel Company established in 1982 is designed to produce 745,000 tons of bars and rods per year in 1985. (Egypt imported 1.9 million tons of bars.) The Di Kherla Plant combined with the Helwan Plant is to produce 5 million tons of raw steel.

There is a growing need to produce more cement in Egypt, to provide housing for the rapidly increasing population and large infrastructural projects. Egypt's annual consumption rose from 4.1 million tons in 1977 to about 16 million tons in 1986. Four cement plants began production in 1982 adding 5.2 million tons capacity and reaching an installed capacity of 7.7 million tons in 1987. Egypt produced 7.6 million tons in 1985, and imported 9.1 million tons. Despite an increase in production to 13 million tons in 1987, demand of 16-18 million per year continues to outstrip supply.

Motor industry: Egypt has been assembling and manufacturing parts of Italian Fiat passenger cars since the early 1960s. The Al Nasr Automotive Manufacturing Co. (NASCO) produces these cars at a rate of 12,000 per year, as well as buses, trucks, and other vehicles. In June 1986, the General Motors Corporation of the USA, under a \$700 million agreement, established General Misr Car Company for car assembly and parts making factories but the project was abandoned in 1987.

3.5 Ownership and investment patterns

As a consequence of the nationalization in the early 1960s, the manufacturing sector is dominated by about 200 mostly large public companies which accounted for over 50 per cent of total employment and 60 per cent of total value added in industry (year 1984/85). The private sector consists of about 250,000 artisanal establishments, each employing less than ten workers and some 7,000 establishments, each employing ten or more workers. Ninety per cent of this group employs less than 50 workers each.

Egypt's public industrial sector comprises a wide range of industrial units producing iron and steel, aluminium, fertilizer, cotton yarn, engineering and cement. Activities that can be carried out by small-scale firms - garments, food products, leather products, cosmetics, wooden furniture and fabricated metal products are the important areas of private activity.

Industry has been a privileged sector of the Egyptian economy; its share of total investment has generally exceeded its share of GDP. Between 1967-1975 most investment was channelled to the establishment of a few new plants, while modernization and renewal received little attention. However, since 1977 the urgent need for modernizing public sector plants has been recognized. Between 1977-81, industrial investment (manufacturing and mining) increased from £E561 million to £E1,215 million, absorbing about 29 per cent of total investment during the period. Most public investment has been directed at rehabilitation and expansion of existing plants rather than establishment of new plants. Nevertheless, many sectors, e.g. fertilizers, cement, textiles, etc., need urgent restructuring to introduce new technologies and new products, improve energy utilization and to reduce production costs.

Private sector investment in industry, which was at negligible levels in 1974, substantially increased following the liberalization of the economy. In 1981, its share of total industrial investment was estimated at 30 per cent. Private industrial projects established under Investment Law No. 43 of 1974 represent a sharp departure from existing private firms of the pre-liberalization period which were engaged in small-scale industrial

activities. Law 43 firms are mostly medium-scale establishments employing between 50-200 workers and have modern equipment and technology, often with inputs provided by foreign firms. Almost all of the industrial firms operating under Law 43 are import-substituting projects selling in the protected domestic market. Textiles, food, chemicals, metals and engineering industries represent the main areas of investment under Law 43.

Although investment has been stagnant for the last few years, the long-term record of industrial investment under Law 43, since the inception of open-door policy, has been impressive (see table 11).

The First Five-Year Plan (1982/83-1986/87) allocated £E8.6 billion or nearly 25 per cent of total investment to the industrial sector, which, however, represents a reduction from its share in the previous Four-Year Plan (29 per cent). The private sector's share of total industrial investment in the Plan is estimated at E 1.8 billion or 21 per cent, a substantial increase over the past. The Second Five-Year Plan 1987/88-1991/92 allocates £E12.17 billion to industry (i.e. 26.7 per cent of total investment). This Plan envisages more investment from the private sector (38.7 per cent of total investment).

Several recent initiatives affecting economic investment policies reflect Egypt's hopes for an expanded private sector role in industrial development. Private sector investment constitutes one of the cornerstones of the Second Plan for Economic Development in Egypt. The Plan anticipates a 100 per cent increase in private sector investment in the economy from E 9 billion in 1982-87 to E 18 billion in 1987-92. In order to meet this projection, the Egyptian government has instituted reforms to attract new investment as well as to facilitate the expansion of private sector activities.

Despite stagnating economic growth, rising deficits and other obstacles, Egypt remains a potentially attractive country for foreign investors. The country's geographical location provides convenient access to expanding markets in the Arab and African regions. Its population growth represents increasing domestic demand. A growing work force and educated and trained skilled workers are other positive factors.

3.6 Size and geographical distribution of manufacturing enterprises

Between 1970-1978 total employment in manufacturing enterprises which employed more than ten workers each had increased from 604.5 to 760.2 thousand but the number of establishments decreased from 5,156 to 4,888. The average size of an establishment as measured by the number of employees per unit increased from 120 to 156. The average size was highest in some chemical industries (3,750 workers). Industrial enterprises employing an average of more than 1,000 workers include petroleum refineries (1,783), non-ferrous metals (1,333), pharmaceuticals (1,217) and transport equipment (1,100). The second group comprises industrial units with an average number of employees between 500 and 1,000: iron and steel (879), paper and pulp (637), and coal and petroleum products (520). The third group, with an average number of employees between 200 and 500, includes tobacco (488), weaving and spinning (466), electric machinery (373), china and earthenware (338), rubber products (272), other chemicals (266), beverages (254), glass and products (234), and

Table 11: Projects approved under Law 43 as of 30 June 1985
(value in EE million)

	Approved projects					Projects in operation					Projects under implementation				
	No.	Capital		Total invest. costs		No.	Capital		Total invest. costs		No.	Capital		Total invest. costs	
		Local	Foreign				Total	Local				Foreign	Total		Local
A. Inland															
1. Industrial projects	567	928.5	1,146.7	2,075.2	5,569.2	282	335.9	383.9	719.8	1,944.5	150	297.5	313.2	610.7	1,490.2
2. Financial projects	254	855.2	925.2	1,780.4	1,909.9	223	693.8	868.0	1,561.8	1,691.3	8	26.1	10.6	36.7	36.7
3. Agricultural projects	102	158.0	159.0	317.0	685.9	37	83.1	58.0	141.1	315.7	28	40.3	44.6	84.9	196.9
4. Construction projects	204	345.8	221.4	567.2	1,263.7	101	98.1	73.5	171.6	410.8	45	54.9	72.8	127.7	337.5
5. Service projects	215	350.6	697.0	1,047.6	2,149.2	137	147.5	243.4	390.9	833.9	49	142.1	219.5	361.6	906.2
TOTAL	1,342	2,638.1	3,149.3	5,787.4	11,577.9	780	1,358.4	1,626.8	2,985.2	5,196.2	280	560.9	660.7	1,221.6	2,967.5
B. Free zones															
1. Cairo	55	2.3	305.5	307.8	344.5	43	2.0	150.5	152.5	176.8	6	--	18.5	18.5	19.4
2. Alexandria	128	0.4	340.0	340.4	534.3	102	0.4	286.4	286.8	459.2	19	--	20.7	20.7	34.8
3. Suez	42	0.5	83.5	84.0	143.3	29	0.4	41.2	41.6	93.0	7	--	12.3	12.3	15.8
4. Port Said	82	1.9	81.8	83.7	95.0	80	2.0	79.8	81.8	45.0	2	--	2.0	2.0	2.0
TOTAL	307	5.1	810.8	815.9	1,117.1	254	4.8	557.9	562.7	774.0	34	--	53.5	53.5	72.0
GRAND TOTAL	1,649	2,643.2	3,960.1	6,603.3	12,695.0	1,034	1,363.1	2,184.7	3,547.8	5,970.2	314	560.9	714.2	1,275.1	3,039.5

Source: Investment Review, A Quarterly Journal of Investment Conditions in Egypt, October 1985, Vol. 6, No. 3.

paper and products (228). The fourth group includes industrial enterprises with an average number of between 100 and 200 employees: unclassified machinery (181), plastic products (180) and publishing and printing (166). The last group comprises enterprises with an average of less than 100 employees: metallic products (89), professional equipment (76), non-metallic products (64) and food products (54).

About 75 per cent of private firms are located in Cairo and Alexandria, while the geographical distribution of the public sector manufacturing enterprises is somewhat more even. Besides the large public industrial complexes at Cairo and Alexandria, major textile enterprises are located in Kafr El Douwar Elkobra, Mansoura and Damietta. The sugar industry is mainly located in upper Egypt. The largest fertilizer company (Kima) is located at Aswan, while the largest aluminium complex is at Nagie Hamdi. Some electric industries are located at Benha, the capital of Kalubia. A modern cement complex is located at Suez. Petroleum refineries are distributed between Suez, Alexandria and upper Egypt. The main food processing plants, Kaha and Edfina, are located in lower Egypt. Some pharmaceutical industries have been established in Minia in upper Egypt. The present policy of the Government encourages regional dispersal of industrial activities, with emphasis placed on industries which satisfy the basic needs such as food and building material industries.

4. INDUSTRIAL DEVELOPMENT STRATEGIES, POLICIES AND PLANS

4.1 Industrialization strategy

The evolution of Egypt's manufacturing sector passed through three distinct phases of development: (1) the industrialization drive in a free enterprise setting (1952-1960); (2) nationalization and creation of a dominant public sector (1961-1973); and (3) liberalization efforts and transition to a mixed economy (1974 to the present).

Typical import substitution emerged both under the regime of private enterprise (between 1930 and the late 1950s) and under that of the planned economy of the late 1960s and early 1970s. Since the adoption of the open-door policy in 1974, the Government's endeavour has been directed towards renewed emphasis on export expansion.

Nevertheless, the industrial sector was still tied to the traditional import substitution strategy even during the First Five-Year Plan (1982/83-1986/87). Though the Plan appears to recognize the growing need for exports, and estimates export levels in important industries (cement, textiles and metals), the Plan appears to view export as surplus production after having met the requirements of domestic demand.

The protectionist environment in which industrialization has occurred has produced a situation where much of Egypt's industry is not only uncompetitive in world markets, a feature borne out by weak performance of Egypt's manufactured exports, but also uncompetitive in the domestic market.

The Second Five-Year Plan 1987/88-1991/92 adopts a firmer position by stating:^{1/} "One of the goals to be achieved is industrialization for exports which will require a change in production methods so that Egyptian products will be strong enough to compete in world markets.

At this stage, Egypt must concentrate on two essential ingredients: know-how and cost. The first element can be realized through using the industrialization experience gained in recent years, and by importing foreign expertise in exchange for participation in opening world markets to provide Egyptian goods with a place alongside the goods of more-experienced companies.

The second element, reducing production costs so Egyptian goods will become more competitive abroad, will require exploitation of the country's comparative advantage with respect to location near world markets (hence low transport costs) and low labour costs. Increased use of domestic natural gas resources instead of electricity and petroleum products may help reduce costs and make Egyptian goods more competitive."

The main objectives envisaged for the manufacturing sector in the current Second Five-Year Plan (1987/88-1991/92) are as follows:

- Achieving self-sufficiency in most consumer industries.

1/ Second Five-Year Economic and Social Development Plan, 1986/87-1991/92, Ministry of Planning, Government of the Arab Republic of Egypt.

- Exploiting idle capacity in public sector production units and using it more efficiently by introducing modern technology where it can be absorbed with the least possible cost.
- Raising the quality of production to conform to established standards and encouraging export industries.
- Expanding the domestic manufacture of equipment and spare parts needed for investment.
- Continuing efforts to raise worker efficiency through programmes for training and retraining, expanding centres for vocational training and industrial apprenticeship, selecting qualified upper-level management and giving it the authority needed.
- Eliminating stagnant inventory to reduce finance burdens, address financial defects and provide cash liquidity to public sector companies.
- Encouraging domestic and foreign capital financing of industry and local bank participation in starting projects and companies to avoid borrowing at high interest rates.
- Establishing production lines producing only for foreign markets, requiring public sector companies to export products equalling their annual material imports and co-ordinating activities of foreign trade companies, the Export Development Agency and the Export Development Bank with production centres to open foreign markets for Egyptian goods.

The Second Five-Year Plan seeks to raise overall public and private sector production from £E20.9 billion in 1986/87 to about £E29.7 billion by the end of 1991/92, representing an increase of 42.1 per cent. Industrial production is estimated to reach about £E10.4 billion in 1991/92, as compared to £E6.9 billion in 1986/87, an increase of 50.7 per cent.

The sub-sectoral objectives are as follows:

Food industry:

- Raise production of important food commodity groups such as sugar, vegetable oils, artificial ghee, preserved fruits and vegetables, using capacities available.
- Expand non-traditional fodder production using corn and sugar cane bagasse to which urea and salts are added.
- Establish agro-industrial complexes on new lands to be planted with fruits and vegetables; expanding food preservation industries for export and increased local consumption.
- Expand flour milling, upgrade flour mills, establish fully and semi-automatic bread bakeries to improve bread and make it readily available.

Spinning and weaving industry:

- Produce ready-to-wear clothing and improve quality through conformity to established standards; variation of production to meet all consumer tastes and encouragement of clothing export after fully studying needs of export and local markets.
- Increased attention to improving the quality of spun goods to meet local and export needs.
- Raise synthetic fibre production (polyesters) and use it to strengthen fabrics; keep pace with developments in the blended fabric, spun goods and composite fibre industries.
- Devote attention to the quantity, quality and specifications of cotton fabric production to meet local consumer volume and provide the quality to meet export requirements.
- Concentrate on reducing loss rates and improving production quality to compete in foreign markets.

Chemical industries:

- Meet the nation's nitrogenous fertilizer requirements by pushing related projects to meet increasing agricultural needs and exporting surplus production, while maintaining the level of self-sufficiency in phosphate fertilizer production achieved under the First Five-Year Plan.
- Produce basic, intermediary and pharmaceutical chemicals to reduce imports of same.
- Expand the production of non-metal building materials, especially cement, to meet construction needs.
- Meet the nation's rubber and passenger tyre needs.

Metal industries:

- Raise self-sufficiency rates in such primary goods as reinforcing rod to meet construction industry needs.
- Concentrate on producing steel rolling units to cover engineering industry requirements, the most important being automobiles, refrigerators and household appliances.
- Meet utilities and oil sectors needs for flexible and rigid cast iron pipe, valves and pipe fittings to reduce imports.
- Devote attention to producing the various types of steel suitable for investment equipment and spare parts manufacture.

Engineering and electronics industries:

- Increased production, concentrating on product quality and quantitative coverage, and assistance in meeting investment equipment and spare parts needs.
- Increased participation in meeting agricultural equipment and machinery requirements to improve production and raise agricultural quality.
- Co-ordinate between economic units in this field to achieve a high standard of production.

Substantial growth in production of manufacturing products is targeted by the Second Five-Year Plan (see table 12).

Table 12: 1991/92 planned production targets of major industrial goods, 1986/87 - 1991/92

Item	Unit	Expected 1986/87	Target 1991/92	Per cent increase
Phosphate fertilizer	1,000 tons	1,170.0	1,350.0	15.4
Caustic soda	1,000 tons	51.0	179.0	251.0
Phosphate	1,000 tons	820.0	1,120.0	36.6
Sugar cane	1,000 tons	800.0	900.0	12.5
Sugar beet	1,000 tons	85.0	100.0	17.6
White cheese	1,000 tons	192.0	240.0	25.0
Animal/poultry fodder	1,000 tons	3,150.0	4,800.0	52.4
Soft drinks	Mill. bottles	4,330.0	5,334.0	23.2
Cigarettes	Bill. cigs.	47.0	55.5	18.1
Pass/truck tyres	1,000 tyres	1,011.0	1,400.0	38.5
Rebar	1,000 tons	550.0	1,750.0	218.2
Autos	Units	20,182.0	50,000.0	145.1
Buses	Units	1,020.0	2,500.0	147.7
Trucks	Units	2,400.0	7,000.0	191.7
Elec. washers	1000's	263.5	600.0	127.7
Elec. refrigerators	1000's	699.8	1,000.0	42.9
Light bulbs	Millions	73.0	120.0	64.4
Cotton thread	1,000 tons	312.5	380.0	21.6
Wool yarn	1,000 tons	20.8	28.1	35.1
Silk thread	1,000 tons	30.1	50.0	56.1
Blankets	Mill. units	5.9	8.0	35.6
Ready-to-wear cloth.	Mill. units	68.5	150.0	119.0
Plate/etched glass	1,000 tons	24.0	94.0	291.7
Gas water heaters	Units	61,000.0	80,000.0	31.1
Water meters	1000's	450.0	800.0	77.8
Electric meters	1000's	530.0	900.0	69.8
Cement	1,000 tons	10,000.0	17,700.0	77.0

Source: Second Five-Year Economic and Social Development Plan, 1986/87-1991/92.

4.2 Industrial policy relating to foreign investment

Nearly two decades of extensive industrialization have laid the foundation for absorbing significant investment funds. Egypt invites the participation of foreign investors in projects combining (a) indigenous labour, management and other resources; (b) Arab and foreign capital; and (c) foreign technology and management. Foreign investors will find a generally favourable investment climate and a wide range of specific investment opportunities. Egypt requires investment of many types to generate employment opportunities and to achieve export expansion. Foreign investment is sought in nearly all sectors. Free zone facilities have been created for investors who may wish to avail themselves of Egypt's exceptional attractions as a base for export promotion.

The General Authority for Investment and Free Zones (GAIFZ) was established in 1971. It controls most foreign investment activities which are governed by the provisions of Investment Law No. 43 of 1974.

In June 1982, some 700 Arab private investors, mostly from the Gulf subregion, co-founded the Gulf Company for Investments, with a strategy to orient Arab private investments to the Egyptian economy under the Free Zones system and the open-door policy.^{1/} The Company is to invest at least 50 per cent of its capital inside Egypt, with or without foreign partners; the rest of the capital may be invested outside the country. The Company has already promoted several industrial and infrastructural projects, some through joint-venture with foreign interests. Among projects already started are:

(a) A company for palm oil production at £E97,444 million capital and £E21.5 million of investment cost.^{2/}

(b) The company Nimetz International for the production of iced desserts; the Gulf Investment Company took a 50 per cent equity in the former company by paying \$4.0 million as contribution to its capital and \$8.5 million for the investment costs.

The Government is determined to improve the climate for investors as a means of increasing exports and employment opportunities. Recently the Government decided to give a substantial push to private investors. Now foreign investors are entitled to a ten-year tax holiday instead of five years. The Government has also decided to establish a special section in the Prime Minister's office to find quick solutions to bureaucratic obstacles faced by potential investors.

1/ "The Gulf Company for Investments in Egypt: The Achievements and the New Phase", in: Al-Iqtissad Wa-Al-Amâl Arab Monthly, No. 76, Beirut, Lebanon, November 1985, p. 75 (in Arabic).

2/ The company took a 20 per cent share in the Malaysian firm Sive Darby, a leading company in palm oil production.

5. THE INSTITUTIONAL FRAMEWORK FOR INDUSTRY

The institutional framework to support industrial development in Egypt consists of the seven categories outlined below:

1. Institutions concerned with the formulation of national industrial plans and policies and with the determination of industrial priorities as part of the overall plans and economic policies:

- (i) The Ministry of Planning prepares all plans and formulates policies for their implementation.
- (ii) The Ministry of Industry formulates development and investment plans, programmes and policies for both the public and private sectors. Before the adoption of the open-door policy all the public and private industrial enterprises were supervised by the Ministry of Industry and Mineral Wealth. It has been entrusted with formulating development and investment plans, programmes and policies for both the public and private sectors. Its affiliate, the General Organization for Industrialization (GOFI) prepares industrial investment schedules to direct private investment into desired areas. Private industrial enterprises are authorized and controlled by this Organization.

Part of the civil manufacturing production of 15 to 20 per cent is supervised by the Ministry of Defence and national defence production in so far as products are produced in factories which belong to the ministry.

After the adoption of the open-door policy the institutional framework to support industrial development in Egypt became quite dispersed. Besides the part played by the Ministry of Planning, the role of the Ministry of Industry as the main entity supervising the manufacturing sector has been limited. Supervising cotton ginning, flour milling, tea packing and bakery production has been transferred to the Ministry of Supply. With effect from the beginning of 1976 the wine and spirits industry was placed under the supervision of the Ministry of Agriculture, the paper industry under the supervision of the Ministry of Information, the cement industry under the supervision of the Ministry of Health.

As a consequence, only 70 per cent of the public sector manufacturing output is produced in enterprises which are supervised by the Ministry of Industry.

With the open-door policy, an autonomous body under the name of the Public Authority for Investment and Free Zones has been established. Later the Ministry of Investment and International Relations was established to which the Public Authority for Investment and Free Zones was affiliated. In 1985 the Ministry of Investment and International Relations was terminated and its tasks have been entrusted to the Ministry of Planning, and the Public Authority for Investment and Free Zones is now its affiliate. It is entrusted with authorizing and following up of the Egyptian and joint enterprises established under the Investment Law No. 43 of 1974 concerning investment and free zones.

Streamlining and simplifying the institutional arrangements between different ministries and agencies responsible for the sector are very essential for the further development of the manufacturing sector. Not less important are the measures which have been recently taken by the Government with the aim of:

- giving greater financial and institutional autonomy to the public sector enterprises including a greater role in determining and financing their investments;
- according greater price flexibility to the public sector enterprises to bring financial and economic profitability more closely in line; and
- granting public sector enterprises the authority to pay market wages for labour, thus enabling them to attract skilled labour which is at present an important constraint affecting productivity, and at the same time reduce somewhat the burden of the large unskilled labour force and the gradual termination of forced employment policy.

2. In the early 1960s various public organizations were established by the Government for the development and supervision of the public subsectors of industry. These public organizations were terminated in 1977. But in 1983 they were replaced by specialized public authorities in various subsectors. Each authority is entrusted with the task of co-ordinating and following up the production and financial plans and programmes of the enterprises comprised in the subsector.

3. Investment promotion and financing bodies or corporations which provide finance to industry in both public and private sectors in addition to the Ministry of Finance:

- (i) The National Investment Bank (established in 1982 and entrusted with the finance of the public sector industry on behalf of the Ministry of Finance);
- (ii) Four public sector commercial banks;
- (iii) Private foreign and local commercial and investment banks;
- (iv) The Industrial Development Bank which is entrusted with the finance of the private sector industries including small industries.

4. Institutions concerned with the training of management personnel, on-the-job training and vocational training:

- (i) The Academy of Sadat for Management Sciences (ex-National Institute of Management Development);
- (ii) The Central Organ for Management. The above-mentioned institutions are supervised by the Minister of State for Management Development;

(iii) The Productivity and Vocational Training Department (PVID) within the Ministry of Industry has 40 training centres and a capacity to train 13,000 annually. Twenty-five training centres are under construction and the total number of trainees annually is expected to be 26,000;

(iv) The Workers' Centre for Training under the supervision of the Ministry of Labour.

5. Institutions concerned with specific responsibilities as the determination of standards and quality control of industrial products, namely, the General Organization for Standardization.

6. Industrial research and development institutions:

(i) The Academy of Scientific Research and Technology;

(ii) 13 universities;

(iii) The National Centre for Research;

(iv) Industrial research and development centres in the main industrial subsectors supervised by the Ministry of Industry.

7. Private organizations concerned with the general or specific problems and interests of the private sector industries:

(i) The Federation of Egyptian Industries which looks after the interest of the public sector industries. Recently it formulated and implemented a programme for supporting small and artisanal industries;

(ii) The Chamber of Commerce and its regional branches.

(iii) The Egyptian-British, the Egyptian-American and other Chambers of Commerce.

6. TOWARDS A NEW ERA OF ARAB INDUSTRIAL CO-OPERATION

Various socio-economic factors have given Egypt a special place in the Arab world: a diversified economy; a large population base (25 per cent of the population of the Arab world); its strategic location; and its large professional manpower base.

The previous experience of economic co-operation shows that Egypt is far from taking full advantage of the extensive possibilities of the Arab market. Exports from Egypt to other Arab countries consisted mostly of migrant labour, with a negligible content of technical and manufactured products content.

This chapter analyses the potential for Arab economic co-operation, Egypt's co-operation with other Arab countries, and the institutional set-up regulating Arab economic co-operation.

6.1 The potential for Arab economic co-operation

Since 1975, the Arab economic landscape has changed significantly. GDP of the 21 Arab states, at current market prices, between 1975 and 1987 has increased by more than 250 per cent, from \$151 billion to \$385 billion. At the same time the population, although growing at a high rate (more than 3 per cent as an annual average), has increased by only 140 per cent (see table 13).

High rates of investment were undertaken by the majority of Arab countries, with a total gross fixed capital formation (GFCF) approaching \$100 billion in 1980 for the 21 Arab countries. In 1980, about \$88,08 billion was spent on investment, and \$67.01 billion (i.e. 76 per cent) of investments were executed or supplied by foreign countries.^{1/}

A recent study^{2/} shows that Arab GFCF, despite the reverse impact of the drop in oil production and prices, still stands at \$92 billion in 1987 and that foreign import content of investment has dropped significantly for most Arab countries.

This means that about \$40-50 billion a year of goods and services for investments are available for Arab co-operation, in addition the significant imports of consumer goods, where Egypt has made notable progress since 1975.

1/ A.B. Zahlan, The Arab Construction Industry, Croom Helm, St. Martin's Press, 1983.

2/ A.B. Zahlan and M. Bouhacene, The Construction Industry in Arab Countries, Arab Union of Contractors, Kuwait, 1989.

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Table 13: GNP (at current market prices and population for 21 Arab countries), 1975-1987

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
	(MILLIONS OF US DOLLARS)												
First group	108,264.0	131,078.2	163,293.5	178,156.2	254,763.7	354,550.8	355,414.7	323,133.4	297,520.7	295,841.8	284,234.0	252,183.0	265,013.9
United Arab Emirates	9,959.7	12,911.3	16,247.9	15,670.8	20,960.7	29,622.0	32,987.6	30,626.7	28,032.4	27,742.0	27,000.9	21,340.9	23,168.2
Bahrain	1,076.8	1,315.9	1,944.4	2,362.8	2,697.1	3,783.3	4,099.8	4,484.9	4,550.3	4,611.5	4,263.1	3,678.2	3,813.9
Algeria	16,286.1	16,327.6	19,636.9	25,361.3	33,352.2	42,349.4	44,363.4	45,204.8	48,807.4	52,647.6	57,512.9	62,952.8	64,594.8
Saudi Arabia	39,688.1	46,610.4	64,512.5	68,012.4	97,049.4	147,625.6	164,817.4	133,047.5	108,814.1	99,108.1	82,171.4	69,544.2	70,143.7
Iraq	13,832.9	18,170.3	20,967.4	23,169.6	40,217.9	53,586.6	37,392.2	42,381.7	42,128.8	47,583.1	49,441.5	44,837.2	47,085.8
Oman	2,103.9	2,560.2	2,741.2	2,741.5	3,734.5	5,974.2	7,210.5	7,566.9	7,932.6	8,820.8	10,003.5	7,276.3	7,724.4
Qatar	2,512.5	3,285.5	3,617.7	4,052.9	5,634.7	7,830.6	8,660.5	7,596.0	6,467.0	6,703.8	6,271.1	4,949.5	5,220.9
Kuwait	12,613.9	13,122.0	14,139.3	15,505.8	24,762.5	28,636.7	24,704.9	21,579.7	21,045.8	21,557.5	19,684.9	17,122.6	18,838.2
Libyan Arab Jamahiriya	12,788.1	16,574.9	19,466.3	19,279.1	26,334.7	35,142.5	31,278.4	30,725.1	29,742.2	27,667.3	27,802.7	20,481.2	24,624.1
Second group	43,506.8	48,687.3	59,367.9	69,998.7	70,298.6	83,313.4	89,539.0	91,907.1	98,444.8	103,240.1	106,484.8	122,987.0	120,523.3
Jordan	977.0	1,269.6	1,361.8	2,049.4	2,507.4	3,301.6	3,326.7	3,750.1	3,919.5	3,903.8	4,066.7	4,663.0	5,054.2
Tunisia	4,335.6	4,448.7	5,128.2	5,975.5	7,239.8	8,666.5	8,428.5	8,133.4	8,097.3	8,028.6	8,272.5	8,949.0	9,566.8
Djibouti	174.7	201.2	216.9	262.9	326.3	337.8	376.3	438.7	511.6	596.5	695.5	755.0	819.5
The Sudan	4,338.4	5,306.7	6,718.4	7,673.5	7,659.9	7,806.2	9,507.1	7,164.7	7,065.3	8,714.2	5,588.3	6,798.8	7,593.5
Syrian Arab Republic	5,567.4	6,418.6	6,882.9	8,252.7	9,930.6	13,043.6	16,760.0	17,527.2	18,674.5	19,197.1	21,205.7	25,065.7	10,275.9
Somalia	711.0	807.5	1,007.1	1,190.0	1,287.1	1,959.9	3,024.6	2,292.5	2,172.5	3,249.6	2,439.4	1,716.7	1,539.9
Lebanon	3,247.5	1,412.0	2,671.6	2,977.9	3,438.7	4,074.0	3,894.2	3,392.8	3,585.4	2,382.5	913.0	378.2	78.8
Egypt	13,335.1	17,191.5	21,323.9	25,032.1	18,150.4	22,100.4	24,743.4	28,986.3	35,432.1	39,837.9	46,452.4	54,708.2	62,929.8
Morocco	8,981.8	9,281.0	11,651.9	13,237.0	15,914.0	17,820.9	14,833.3	14,954.6	13,305.7	11,899.3	11,859.4	14,749.9	16,863.6
Mauritania	475.9	524.1	539.7	554.4	644.4	709.7	747.8	749.6	783.8	723.6	692.0	811.5	903.5
Yemen Arab Republic	1,070.5	1,456.8	1,801.6	2,231.7	2,563.8	2,779.7	2,873.9	3,593.8	3,872.0	3,604.7	3,219.4	3,416.5	3,875.7
People's Democratic Republic of Yemen	291.8	369.4	463.8	510.1	596.4	693.1	823.4	932.5	1,025.1	1,102.2	1,080.5	974.5	1,022.0
Total Arab GNP	151,770.8	179,765.6	222,661.4	248,114.9	325,022.3	437,864.2	444,953.7	415,040.5	395,965.4	399,081.9	390,718.8	375,170.0	385,537.2
Total Arab population	141,024.0	145,793.0	150,580.0	155,458.0	160,252.0	165,797.0	172,523.0	177,014.0	182,250.0	187,243.0	193,157.0	198,661.0	204,331.0

Source: Arab Fund for Economic and Social Development, Statistics of Arab Countries, Kuwait, 1988.

6.2 Increasing importance of Egypt in Arab economic co-operation

The main factor of economic co-operation of Egypt with other Arab countries has been export of qualified labour. Although the workers' remittances represent a major source of income for Egypt (\$3.4 billion in FY 1987/88), this potential source of income could be increased significantly if the qualified labour force is organized into co-operation schemes dealing with the export of complete projects associating various resources in design, procurements of manufactured goods, construction, production and technical assistance, operation, management and maintenance.

Project execution provides an important and large market to the engineering and manufacturing industry in general. Sectoral distribution of economic activities in Arab countries, and consequently technological requirements are similar. The major fields of development are the following:

- Water supply for human consumption, agriculture and industry: The Arab population growth from 121 million in 1970 to an estimated 282 million by year 2000 will imply additional requirements for water supply capacity and investments in land reclamation, dams, canals and irrigation systems, water transport and distribution network.
- Extraction industries (mainly oil and gas): Income from oil and gas will remain the major source of revenue. It can be assumed that the depletion of existing oil/gas fields will justify the pursuance of investment programmes which had been cancelled or postponed due to the oil glut of the 1980s. These investments will call for development programmes in the area of oil field development (onshore and offshore production facilities, gathering networks, pipelines and related utilities). The progressive depletion will call for enhanced recovery technologies (gas lift, gas and water injection etc.).
- Food processing industries: This sector requires a broad-based long-term development programme. Egypt is particularly experienced in developing rural industries.
- Transition from basic to downstream industries: Arab countries have, in general, invested heavily in basic industries (steel, aluminium, chemicals and petrochemicals, refining etc.). The needs of the growing population for consumer products will create an opportunity for broad diversification of downstream industries, especially in countries with large populations.
- Building materials industries: Despite high rates of growth during the past 15 years, these industries will continue to expand in order to meet the increasing needs for housing, schooling, health, social and physical infrastructure in general.

Table 14: Gross fixed capital formation of Arab countries, 1981-1987

Country	1981	1982	1983	1984	1985	1986	1987
Algeria	16,412.7	16,845.2	18,336.6	19,307.3	19,382.8	21,349.8	21,628.3
Egypt	7,440.1	8,928.8	9,284.5	9,708.8	10,511.6	11,631.7	11,643.1
Iraq	17,266.2	19,091.4	15,160.0	12,637.3	9,721.5	11,259.2	11,580.8
Jordan	1,780.9	1,757.8	1,405.3	1,264.3	1,197.4	1,010.1	1,154.3
Kuwait	4,168.3	5,436.7	5,169.7	4,461.3	4,186.2	3,391.6	3,661.4
Libyan Arab Jamahiriya	9,900.3	7,809.5	7,457.5	6,861.0	5,499.1	5,107.2	6,126.5
Morocco	3,322.2	3,481.2	2,778.1	2,590.1	2,721.2	2,993.0	3,246.5
Oman	1,689.3	2,046.0	2,133.5	2,643.9	2,759.4	2,336.6	2,197.7
Saudi Arabia	32,488.7	33,600.4	37,468.8	33,065.4	20,700.9	16,865.2	16,690.3
The Sudan	2,015.5	1,757.0	1,251.7	1,254.5	906.3	1,006.4	1,137.9
Syrian Arab Republic	3,888.8	4,145.6	4,404.5	4,552.1	5,041.0	5,589.5	2,165.1
Tunisia	2,724.8	2,572	2,371.9	2,567.6	2,198.5	2,202.7	2,256.6
United Arab Emirates	8,662.6	8,761.2	8,772.1	8,034.7	6,791.7	6,158.1	5,855.0
SUB-TOTAL	111,760.4	116,232.8	115,994.2	108,948.3	91,617.6	90,901.1	89,343.5
Other Arab countries	9,947.0	6,955.8	5,999.3	5,703.6	4,317.3	3,599.3	3,585.3
Total Arab countries	121,707.4	123,188.6	121,993.5	114,651.9	95,934.3	94,500.6	92,928.8

Source: A.B. Zahlan and M. Bouhacene, The Construction Industry in Arab Countries, Kuwait, 1989.

The potential scope for co-operation between Egypt and other Arab countries is very broad. The Egyptian economy could significantly increase its share of the Arab market provided efforts are made to adopt a more comprehensive approach based on complete projects and development co-operation schemes than the present piecemeal approach which is mainly limited to exporting skilled labour.

6.3 The institutional set-up for Arab industrial co-operation

During 1989, Egypt has strongly reinforced its economic co-operation with other Arab countries. On the one hand, Egypt has been readmitted to the Arab League; on the other hand, Egypt has co-founded - with Iraq, Jordan and the Arab Republic of Yemen - a subregional co-operation organization: the Arab Co-operation Council (16 February 1989).

Arab subregional co-operation takes place in three main subregional organizations: the Gulf Countries Co-operation Council, the Arab Maghreb Union, and recently the Arab Co-operation Council.

The preparatory work for the creation of the Arab Co-operation Council has been dominated by the goal of establishing real economic complementarity between member countries. To this end, it has been agreed to harmonize technical production standards and to facilitate the free flow of goods and services among member countries. In the field of custom duties, a five-year planning approach has been adopted to progressively decrease duties between member countries. It has also been agreed to pool imports to secure better prices and conditions and save significant amounts of foreign exchange. The Arab Co-operation Council Summit (Alexandria, 15/16 June 1989) envisaged free movement of labour within the member countries and outlined a programme to harmonize the legal aspects of administration and finance, and establish permanent channels of communication between the Ministers of Foreign Affairs.

Numerous other institutions have been created over the past decade, such as Arab Development Banks, Arab Monetary Union, Arab Industrial Development Organization, Arab Satellite (ARABSAT), Arab Union of Contractors, the Inter Arab Investment Guarantee Corporation, etc.

The next important phase in the building up of co-operation is undoubtedly the reinforcement of the three subregional groupings, and the launching of broader co-operation schemes in the field of industrial development through co-operation in investment, technology and labour.

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