By comparison, the International Labor Organization has issued some very interesting projections based on a mission it sent to Egypt in March 1991 whose report[5] predicts the impact on unemployment in 2000 of projected GDP growth rates. It belongs essentially to the group of long-term development scenarios, but it does not present the findings of the studies on industrial employment, production, and investment structure which are the basis for its forecasts. Although it is not an industrial structure policy, the USAID country development strategy cites the low productivity of the national economy as a critical development problem that Egypt must now attempt to solve and addresses measures at the sector level for industry and agriculture as well as scientific and technical aid. Its basic standpoint is close to that of the World Bank[6]. As should be clear already from the section on the necessity of industrial policy (1.4.5), our standpoint on these multilateral agencies' approaches is the following: while we fully recognize the importance of the IMF's and the World Bank's approach to industrial policy at the macroeconomic and sector levels, at the sub-sectoral and firm levels, some reservations and corrections are necessary which take into account foreign assistance. But because this is the way problems related to industrial structure are treated in reports by multilateral agencies, very little information can be obtained from them and it is not permissible to use the expedient methods that we have used in short- and medium-term scenarios.

Luckily, however, we are able to use part of the material from the report on the Egyptian government's second five-year plan for social and economic development (1987/88-1991/92), which is apparently based on the formulation of a comprehensive industrial structure policy. We also have our own sources of information on industry and agriculture, although they are limited. Based on these sources of information, we will point out here a few of the issues in formulating long-term scenarios and development strategies.

2.5.2 Comments on the Second Five-Year Plan's growth target

The Second Five-Year Plan was drafted as part of a long-range twenty-year plan that began with the first plan (1982/83-1986/87), now complete,

and is to be followed eventually by the third (1992/93-1996/97) and fourth (1997/98-2001/02) plans. As we mentioned in section 2.1, this plan incorporates the comprehensive macroeconomic planning agreed upon by consultation with the IMF and the World Bank in 1987. (For example, the allocation of public to private investment called for in economic planning was 74:26 in the first plan and is 61:39 in the second plan. The second plan's report terms this "a radical strategic change.") But it is the Egyptian government that wants to forecast structural changes in its long-term planning.

The long-term plan sets forth three major targets: the improvement and expansion of physical and social infrastructure, the extension of industrial siting beyond the Nile valley including 1.5 million feddan of new land, and the achievement of "economic independence," which will make it possible for Egypt to achieve economic development for itself. The third target is the most important; to achieve it, the Second Five-Year Plan addresses the necessity to greatly increase agricultural and industrial exports (as well as revenues from tourism), a task which the first plan failed to accomplish, and to compress imports as much as possible.

The plan's indicators for accomplishing these goals are the following.

a. GNP growth rate

The second plan aims at 5.8%, the third will aim at 6.2% and the fourth at 6.7%.

b. Industrial production

The second plan's growth rate target is 7.2%. From 1986/87 to 2001/02, output will increase 4.1-fold and industrial output's share of GDP will rise to 25%. (Oil production was 10% of GDP in the first plan, but its importance will decline gradually to less than 2% in 2002.)

c. Industrial production structure

Table 2.1 shows almost no change between the 1986/87 and 1991/92 targets for industrial production structure. This suggests the government's expectation that the four most important sectors of industry (foods, textiles, chemicals, and metals and engineering) will retain their present relative importance.

d. Agricultural production

Agricultural output will double between 1986/87 and 2001/02.

e. Imports of commodities and services

Imports of commodities and services will barely increase during the second plan: the annual growth rate will be 0.3%. Exports will increase by 6.1% a year. During the third plan, the commodity and services balance will right itself at last.

Table 2.1 Industrial production targets during the Second Five-Year Plan (manufacturing and mining)

(Unit: million Egyptian pounds in constant 1986/87 prices)

	1986/87		1991/92		Average annual growth rate
		Share (%)		Share (%)	
Food	6,853.1	32.8	9,593.0	32.3	7.0
Spinning, weaving, ready-to-wear	5,010.9	24.0	6,942.8	23.4	6.7
Chemicals	4,002.1	19.2	6,056.4	20.4	8.6
Metals	1,846.2	8.8	2,595.9	8.7	7.1
Engineering	2,939.6	14.1	4,111.7	13.8	6.9
Extractive	191.4	0.9	345.2	1.2	12.5
Other	55.2	0.3	83.0	0.3	8.5
Total	20,898.5	100.1	29,728.0	100.0	7.3

Source: Egypt's Second Five-Year Plan For Socio-Economic Development (1986/87-1991/92) with Plan for Year One (1987/88), Volume Two, The Sectoral View, Translated by R.G.Wolfe, Professional Business Services, Ltd., Cairo, 1989, p.39.

All three major targets of the Second Five-Year Plan are appropriate, but we would like to make the following comments on the indicators.

2.5.2.1 Eagerness to achieve high growth and its feasibility

First, are the target growth rates for the GDP (5.8% in the second plan, 6.2% in the third plan, and 6.7% in the fourth plan) too ambitious? The Egyptian government is eager to achieve high growth while recognizing

the necessity to address serious unemployment and poverty problems. Employment data cited in the above-mentioned ILO report are useful. One scenario uses a 5.2%, another an 8%, annual GDP growth rate in the period from 1990 to 2000. Based on the unemployment estimate of 9.7% for 1990, the low-growth scenario will lead to 17% unemployment, the high-growth scenario to 7% unemployment, a slight improvement, in the year 2000. The ILO mission regards an 8% growth rate as "unrealistic," but even the low-growth scenario (which is very close to the Egyptian government's target) is clearly much more optimistic than either the IMF or the World Bank's ERSAP estimates. It does not take into consideration the growth lowering effect of adjustments in the early 1990s. The accuracy of the growth rate estimate must be examined in relation to imports. It is hardly likely, as a World Bank source criticizes, that Egypt would achieve 5.8% total GDP growth rate and 7.2% industrial growth rate as expected under the Second Five-Year Plan because of planned drastic import curbs.

2.5.2.2 Implications of unchanged industrial structure

A variety of problems affect the expectation of almost unchanged industrial and mining production structures during the Second Five-Year Plan. This would, for example, imply adherence to the industrial and mining production systems established during the Nasser era premised on that era's industrial technology. The same could be said of industrial export structures. Though we must withhold any specific comments until detailed studies have been made of industrial and mining industries, especially of the four biggest sectors — textiles, foods, chemicals, metals and engineering — it is fair to say that industrial structure problems are common to total industrial and mining systems in some measure built up within the industrial technology framework of the 1950s and 1960s. To understand these problems, we need to know more about new trends in industrial trade based on global trends of technological innovation born since the early 1970s.

2.5.2.3 Impact of knowledge-intensive technological advancements

It is becoming increasingly clearly understood through World Bank and other international comparative studies on industrial productivity and

competitiveness that the gaps among nations are demonstrable less and less by conventional production factors and that knowledge and other new factors play an increasingly important role, instead. The choice of appropriate factor ratios (for example, choices of labor-intensive industries and technologies in developing countries with labor surpluses) does contribute to reducing inputs' cost, but the efficient use of resources contributes more to lowering overall product costs, and input cost reductions are less important than they used to be. One choice is the selection of appropriate equipment at the hardware level; presently, automated plants play a decisive role. At the software level, improvement of production organization also has a decisive importance. Organizational improvement could be achieved through a vast variety of measures including stock control, reduction of defective goods, quality control, education and training, and giving responsibility to workers. Presently, these changes are integrated into total quality control and just-in-time systems that can be taught using manuals. (The cost-reducing effect of organizational improvements at the systems level is now known to be very great, even if the manufacturing plant is still at the pre-automation stage.) Outside the plant, such infrastructure as materials and parts supplier networks and sales and production data systems is also important. And above and beyond this, the lower the degree of maturity of an industry where the pace of technological innovation is rapid, the greater the influence on cost differences of differing speeds of acquisition of new production techniques. In all of these aspects, knowledge is a factor exerting important effects(7).

Repercussions of recent technological progress on developing countries are conceivable in the following three areas.

a. Choice of industrial structure

The large-scale, capital-intensive industrial plants that the socialist-inspired developing countries once chose are rapidly losing competitiveness. The World Bank has advised China to shift its priority to industries such as transportation, electronics, and services with more linkage and technological potential. Meanwhile, from the standpoint of their new-technology potential, people are finding new advantages in smaller enterprises, whose merits were once considered to lie chiefly in their

low capital intensity and labor intensiveness. Small businesses are more able to convert facilities and production methods in response to changes in their markets. Computerized small enterprises are especially able to quickly sense export market needs, to respond to changing tastes and to redesign and retool accordingly. This is exemplified by the way that Mauritius in the Indian Ocean has achieved stunning export growth with its apparel industry.

b. Organization improvement at the firm level

Learning from Japan's experience with total quality control and just-in-time systems to achieve better productivity and lower costs is regarded in many industrialized nations as an important step toward enhancing competitiveness. Similar efforts are now beginning in developing countries.

c. Investment in human resources

The ultimate method for seizing opportunities for technological innovation is to increase investments in human resources and to build up stocks of knowledge. The number of fields in which enterprises require new knowledge continues to increase, and the need for investment in human resources is getting increasingly urgent.

Detailed studies must be made to better determine how the implications of these developments affect Egypt's long-term development, especially its goal of achieving economic independence through industrialization. It is certain, however, that they pose challenges for its development.

2.5.3 Four directions for industrial structure formulation

In brief, our view on Egypt's attempts to ensure its long-term economic development by means of the second five-year plan boils down to the necessity of keeping the following four general orientations in mind in formulating its industrial structure and export industry structure for long-term independence after or while promoting the tasks of stability and decontrol.

a. Processing and export of primary commodities (the kind of classical route to industrialization of developing countries described in Section 1.4.1, called "export substitution" by Myint and development of intermediate goods production induced by inter-industry linkages involved in production for export.

b. Development of the manufacturing industry through import substitution, namely through direct foreign investment or international subcontracts, observed recently in the process of industrialization of exporters of primary commodities.

c. Industrialization through planned economy-type heavy industries, once tried under the closed systems of the Nasser era.

d. Development of knowledge-intensive industry based on computerization and organizational improvements.

Egypt has thus far relied for its industrialization on a combination of strategies (a) and (c). The four biggest sectors of Egyptian industry (textiles, foods, chemicals, and metals and engineering) represent these two approaches. Approach (b) was attempted with the establishment of free zones under Sadat and his open-door policy, although no decisive action has yet been taken. Strategy (d) may work in complementary fashion with strategies (a), (b), and (c), and the greatest potential for rapid effect would be achieved through the linking of strategies (b) and (d); joint ventures involving foreign partners will lead to growth in export industries (as seen in Mauritius, for example). The real policy issue can be said to be what combination of these four approaches would lead to formulation of the most effective long-term industrial structure.

The problems of formulating industrial structure policy taking into account the aspect of export industrialization are addressed above. But for the time being, given the unemployment situation, the most likely choice is a choice of dual-structured industry and technology different in terms of organization, technology, and factor ratios from any of these.

Notes:

(1) See the source for Figure 2.1. For an outline of the 18-country comparison, see Ann O. Krueger and others. "Agricultural Incentives in Developing Countries: Measuring the Effect of Sectoral and Economywide Policies," The World Bank Economic Review, September 1988, pp.2-3.

(2) Bent Hansen and Samir Radwan. Employment Opportunities and Equity in a Changing Economy: Egypt in the 1980s, A Labor Market Approach, ILO, Geneva. 1982, pp.118,137.

(3) Jean-Jacques Dethier. The Political Economy of Agricultural Pricing Policy: Trade, Exchange Rate, and Agricultural Pricing Policies in Egypt. Vol.II: The World Bank, Washington, D.C., 1989, p.135.

(4) Bent Hansen and Samir Radwan. Employment Opportunities and Equity in a Changing Economy: Egypt in the 1980s, A Labor Market Approach, ILO, Geneva. 1982, pp.120-121.

(5) ILO. The Challenge of Job Creation in Egypt, Report of ILO Multidisciplinary Misssion on return Migrants from the Gulf, Geneva, 1991.

(6) USAID. United States Economic Assistance to Egypt: Status Report Cairo, December 1990.

(7) Ashoka Mody. "Institutions and Dynamic Comparison Advantage: The Electronics Industry in South Korea and Taiwan," Cambridge Journal of Economics, 1990, p. 14.
Ashoka Mody and others. International Competition in the Printed Circuit Board Assembly Industry: Keeping Pace with Technical Change, July 2, 1991, The World Bank and other institutions. (mimeographed)

3. Japan's aid strategy

In our observations on development scenarios and strategies in the previous chapter, we relied mainly on the IMF and the World Bank documents for discussion of short-term stabilization and medium-term structural adjustment issues. This enabled us more easily to address and comment on the problem-solving programs and corresponding scenarios that have been discussed and agreed upon between these organizations and the Egyptian government. We addressed and made comments on two other major objectives — Egypt's long-term development and economic independence — by examining official development strategies and their scenarios, based primarily on the Egyptian government's Second Five-Year Plan.

The next step in our study, as mentioned at the beginning of this report, is to define Japan's aid strategy. First, the Egyptian and Japanese governments must reach an agreement on a development strategy; then, once the tasks and foreign aid amounts counted on are clarified in the implementation plan, this plan forms the basis for aid coordination among major aid donors and for the final determination of Japan's aid strategy for Egypt. For expediency in this report, however, we go no further in the discussion of aid coordination during this step than to spell out the characteristic features of major donors' aid to Egypt thus far, in Section 3.1. This contributes to the aim of taking other donors' strengths fully into consideration and benefiting from them in the determination of Japanese aid strategies. Wherever close ties exist with other donors' aid programs in the fields where it has been decided to give Japanese aid, it is also hoped that closer ties will be forged at the implementation stage. We have summarized our aid strategy formulation approaches using three different methods in Sections 3.2 and the following.

The first approach is to generate proposals after examination in accordance with this report's step-wise procedure for formulating countrywide aid strategies. The second is to produce a specific aid proposal based on actual experience with Japanese aid carried out in accordance with the Japanese government's customary principle of "request basis". The third focuses on projects and the types of programs to be implemented;

in the examination of an aid proposal, this approach takes into account the results of the individual analyses discussed below in Part II of this report, which addresses specific questions.

3.1 Previous assistance to Egypt by Japan and other major donors

3.1.1 Japanese aid to Egypt

Japan's aid to Egypt began in earnest around 1973, when the United States and other western countries began full-scale aid to Egypt; this period coincides with the first oil price shock. Since then, Egypt has retained the highest priority of countries in the Mideast Arab region receiving Japanese aid. By 1990, Japanese aid to Egypt had reached a cumulative total of 485 billion yen, far more than to any other country in the region(1). Net disbursement were $78.65 million (7.6 billion yen) in 1989; this sum made Japan Egypt's third largest aid donor following the United States and West Germany (5.6% of all aid received by Egypt)(2).

Japan's aid principle of "request basis" has ensured that Japanese aid respects the Egyptian government's socioeconomic development plan. The improvement of agricultural productivity to achieve food self-sufficiency, upgrading of health and medical care, construction of water supply and sewage systems and other social infrastructure, and improvement of economic infrastructure have been especially important focuses of aid. Human resources development and education also received aid, due to Japanese awareness that the effects would also be felt by Egypt's neighbors. On a cumulative basis, in descending order of sums allocated, transportation, social infrastructure, industry, agriculture, and health and medical care received aid funds. This aid has apparently contributed to meeting real needs from the standpoint of the Egyptian government's long-term development.

But two additional comments are to be made. First, no new loan projects have been undertaken since 1988, when the Egyptian government began delaying repayment of its loans. Second, Japanese aid has not included "program aid," except immediately effective Commodity Loans

that were given until the beginning of fiscal 1980 and Emergency Commodity Loans made in 1990. Since the mid 1980s, the Egyptian economy has faced a serious crisis in its balance of payments, and while international concern has focused on aid for Egypt's economic stabilization and structural adjustment, Japan has not yet accumulated sufficient experience and data with aid in this respect.

Below, we make a few additional comments regarding Japanese aid to Egypt. In terms of cumulative totals, Japan's aid to Egypt thus far has consisted to a large degree of loan assistance (85%: the average share of loan assistance in the Arab Mideast is 73% and the 1990 average share of loan assistance in all aid was 57%). Technical cooperation accounts for a small share (5%: the Arab Mideast average is 14% and the 1990 average share of technical cooperation in all aid is 20%)[3].

One of the main areas where aid is given to Egypt, transportation, has been mainly connected with the Suez canal and port facility improvement. Aid to Egypt in this area has taken such forms as loan assistance, dispatching of specialists, and counterpart training programs.

In the social infrastructure sector, Japanese aid has been centered around the supply of housing for low-income families and improvement of water and sewage systems; the former area primarily takes the form of grant aid and the latter takes the form of both grant aid and loan assistance.

In industry, loan assistance has been used to build steel mills and cement plants. Training is provided in response to requests aimed at making Egypt's public enterprises more efficient and fostering smaller enterprises, mainly by courses of industrial standardization and quality control, business feasibility studies and management practice, and smaller enterprise development. In response to Egypt's request for help in modernizing the textile industry, one of its key industries, project-type technical cooperation and counterpart training are being used to transfer Japanese technology related to the spinning of composite fibers and plant management to Egypt.

In agriculture, grant aid of equipment and facilities, project-type technical cooperation, and training programs have helped Egypt to boost

rice farmers' productivity, especially through mechanization of rice cultivation. On top of these aids, aid for increased food production including the provision of grain silos, farm machinery, fertilizer, and pesticides have been given to Egypt.

In the health and medical sector, Cairo University Children's Hospital project, a nursing education research project, and a family planning project are all underway; grant aid provides funding for the children's hospital. For many years, Japan has admitted trainees from Egypt into family planning training programs, and until the mid 1980s, it also received a number of trainees in programs of tuberculosis control; as a by product of the commencement of the above-mentioned projects, trainees in nursing education and pediatrics have been increasing since the beginning of the 1980s.

The "development study" is one of the main features of Japanese aid, and many have been conducted. In the case of Egypt, some 39 master plan studies and feasibility studies have been conducted as of 1990; they addressed regional development, Suez canal expansion, water and sewage system improvement, steel mill construction and other areas, in addition to rural and agricultural development.

3.1.2 The IMF and the World Bank aid to Egypt

The main features of the IMF and the World Bank aid are that the two organizations collaborate to assist Egypt in the administration of its macroeconomic policy. In the past, the IMF and the World Bank generally worked in separate fields: the IMF in economic stabilization and the World Bank in structural adjustment. Often adequate coordination was lacking. But from 1987 on, they have integrated their procedures and devised joint aid strategies. The Economic Reform and Structural Adjustment Program formulated in 1990 (ERSAP: discussed in Section 2.1 above) is an example of an agreement reached with the Egyptian government on the basis of a joint aid strategy worked out by the World Bank and the IMF. This program was implemented through financial assistance in the form of a standby credit from the IMF and a structural adjustment loan (SAL) from

the World Bank.

The IMF and the World Bank had made detailed preliminary studies before they established the "conditionalities" (the terms under which they finance). The conditionalities are reflected in Egypt's national development plan based on talks with its government. The IMF and the World Bank constantly monitor the performance of the government to ensure achievement of the conditionalities, and their criteria are rigorous. Of the 1987 standby credit, only the first tranche (50% of the total) was made available; the credit was annulled in 1988. IMF and World Bank aid policy have a great influence on the attitude of major creditors toward reducing the debts owed to them; the IMF and the World Bank play a leading role in macroeconomic aid for Egypt.

The objective of present ERSAP is "to restore Egypt's creditworthiness and achieve inflationless economic growth by realizing an outward oriented economy based on the market principles." The conditionalities have an extensive coverage, including policies on the government budget (reallocation of public investment etc.), on foreign exchange, on financing, and on foreign trade, as well as public enterprise reform, promotion of private-sector investment, and price policies. In recognition of the importance of compensating for the short-term social costs associated with the economic stabilization and structural adjustment, additional financial support for Social Fund for Development is to be given also.

Hence, IMF and World Bank "macroeconomic" aid, because of its scale, the vast scope of its conditionalities, and its funding for SFD, has effects on all productive and social sectors, not just at the macroeconomic level. The main aid donors have unanimously voiced their support for the IMF's and the World Bank's stabilization and structural adjustment programs, and it is likely that IMF and World Bank leadership will continue in the future.

The World Bank has also been providing aid to Egypt for individual projects. The scale of this aid is relatively small compared to its macroeconomic aid: it decided on a $300 million structural adjustment loan (SAL) in June 1991 (more than $500 million, if you include co-financing proposed by the

African Development Bank), and its cumulative net disbursement for Egypt over the period 1972-1989 totalled $942 million[4].

The characteristic feature of World Bank project aid is continuous support to its priority areas and a multiple-faceted approach that relies on projects consisting of multiple sub-projects. This microeconomic aid is also backed by massive detailed studies and research, which constitute a valuable source of data for other multilateral and bilateral donors. The main areas of project aid by IBRD are industry, energy, and transportation and communications, and by the IDA are agriculture, energy, and education. Egypt has been regarded since 1982 as ineligible for IDA aid, but the IBRD has taken over from the IDA since the 1970s in the areas of industrial development bank aid and assistance for the improvement of agricultural irrigation. Continuous aid is also being provided by the IBRD and the IDA in the areas of electricity, education, communications, and population. The IDA decided in fiscal 1991 to allocate $140 million to the SFD.

3.1.3 The U.S.A.'s aid to Egypt

Since 1972, the United States has been making up for the drastic drop in aid to Egypt from OPEC, rapidly increasing its aid to the point that at least 50% of all aid received by Egypt thus far has been provided by the United States[5] ($905 million on a net disbursement basis in 1989[6], 64.2% of all bilateral aid received by Egypt). Both Egypt and Israel are the largest recipients of U.S. aid: in the 1980s, between 40% and 50% of all U.S. bilateral aid went to Egypt and Israel[7].

U.S. aid to Egypt is closely tied to its military and political strategy; it is carried out through the Economic Support Fund (ESF: formerly Defense Support or Security Support) and the PL480 program[8].

U.S. aid to Egypt thus far has been channeled mostly through the ESF Commodity Import Program (CIP) and PL480 food program (mainly aid for wheat and wheat flour import); from 1974 to 1990, a cumulative total of $30.2 billion was provided, 44% via the ESF and 12% via PL480. The ESF has normally been applied in the past mostly to militarily and politically strategic countries (in 1984, eight Mideast or Central American

countries received 62% of all the ESF); PL480 is used to facilitate purchases by foreign countries of surplus U.S. agricultural products. From 1974 to 1990, foreign military sales totaled $13.2 billion (44% of all U.S. foreign aid to Egypt) — clear evidence of the military and political motivations behind U.S. aid to Egypt.

The very scale of U.S. aid has had a major impact on Egypt's economy. For example, PL480 has helped Egypt considerably to hold down its domestic bread prices, and the ESF has facilitated the enforcement of the open-door policy in the 1970s. On the other hand, since 1983, the ratio of loans to grants has been reversed, and in 1988, grant aid reached about 80% of the total[9]. U.S. aid is the only bilateral aid that is predominantly grants, but the generosity of this support is regarded as one of the factors which caused the "moral hazard" (namely dependence on foreign aid rather than self-help) in Egypt today.

At the 1991 Consultative Group meetings, the United States announced that it would continue to make private enterprise development a central objective of U.S. aid and, as in the past, to keep the ESF as the major means of U.S. aid to Egypt. The collapse of the Soviet Union and other unforeseen events since then, however, have made it imperative to watch developments closely to determine how U.S. aid to Egypt will evolve and how Japan will be able to play its role in the new situation, and whether Japan will be asked to make a larger contribution.

At the CG meeting, the United States also announced that it would contribute funds to SFD and suggested the need for continuing aid co-ordination and support via the CG scheme, by the United States as well as other aid donors, for Egypt's structural adjustment programs.

In sector-wise project and program aid, the main focuses of U.S. aid have been energy, industry, public works, and agriculture; U.S. aid can be said basically to follow the same line as the stabilization and structural adjustment policies of the IMF and the World Bank. For example, U.S. aid in the industrial sector is directed at promoting the private sector, at reforming and rationalizing the management of public enterprises, and at promoting direct investment in Egypt by U.S. farms; in the health sector,

it assists public hospitals in the process of making their medical services chargeable[10].

3.1.4 UNDP aid to Egypt

Aid from the United Nations Development Programme has thus far not been large — below 10%, averaging about 4.5%, of multilateral aid — but all of it is given in the form of technical cooperation; until 1983, in amount it was equal to or greater than Japan's technical cooperation ($8.3 million in net disbursement in 1989)[11].

Before giving aid, the UNDP drafts a country program that includes a development scenario and aid strategy over the next five years; since 1972, it has drawn up five country programs for Egypt. The country program formulation procedure relies on discussions with the Egyptian government as well as with major bilateral and multilateral donors and the United Nations agencies.

The fifth country program (covering the period from 1992 to 1996) for Egypt follows the strategy of the fourth UNDP country program and names as its priorities sustainable development, human resources development, economic and management development, and a transnational economy. It approaches cross-sectoral, long-term issues in a comprehensive way. Such a comprehensive approach is made possible since UNDP aid is implemented by many specialized international agencies (including the UNDP in some cases), and the UNDP acts mainly as an overall coordinator of aid based on the country program.

Specific instances of UNDP aid are mainly technical cooperation projects carried out by the specialized international agencies, as mentioned above; they focus on energy, resource development, and industry. The fifth UNDP country program explicitly mentions, in relation to Egypt's structural adjustment program, that the UNDP recognizes the importance of linkage with structural adjustment policy and supports the Social Fund for Development, but the UNDP does not directly carry out aid within the specific framework of the structural adjustment program. It emphasizes aid that gives indirect support for structural adjustments, for example,

human resources development (e.g., the training of professional elites and training in important technologies), improvement of information systems required for development planning and management capacity building, and drafting master plans and carrying out pilot projects to prime the flow of domestic and foreign capital[12].

3.1.5 European Community aid to Egypt

European Community aid to Egypt constituted an average of around 10% of all multilateral aid received by Egypt until the mid 1980s. It has grown very swiftly in recent years, reaching 40% ($70 million) in 1989[13]. EC aid characteristically is divided into different forms: grant aid, soft loans, and loans from the European Investment Bank.

Three times (in 1977, 1980, and 1987), the EC has concluded co-operation agreements with Egypt. Similar to the Lome conventions (on financial aid, technical cooperation, and trade between the EC and 66 African, Caribbean, and Pacific countries), the EC cooperation agreements are characterized by the integration of agreements on trade and on development aid. These agreements include the Egyption accord provided for preferential condition on trade with the EC.

In 1987, the third agreement defined as priority areas the environment, science, and trade promotion. The latter features support for exports to EC markets by the Egyptian knit and leather industries, support for exports to markets in Arab region by the textiles and food processing industries, and mediating assistance in the formation of joint ventures with the EC private farms[14].

EC food aid also takes the form of consultants' services in the effective use of its counterpart fund.

Structural adjustment is being actively supported by EC aid to Egypt, and structural adjustment loan (SAL) co-financing, funding for SFD, and support for the Privatization Fund proposed by the World Bank have been announced.

3.1.6 Ex-West German aid to Egypt

Ex-West Germany (now Germany) has competed with Japan for second place of Egyptian aid donors, ranking just ahead of Japan. In 1989, West Germany provided $203.3 million on a net disbursement basis, 14.4% of total bilateral aid to Egypt, the second largest contribution[15]. Similar to Japan's assistance, a large part of the German total, about 80%, is loan assistance with such priority areas as transportation (especially Egypt's national railroads), industry, energy, and agriculture. A major difference lies, however, in a recent shift to forms of aid with major grant elements and extremely soft loan terms: 0.75% annual interest, maturity of 50 years.

Another feature of German aid to Egypt is considerable technical cooperation emphasis on rural community development projects, on farmers' income generation programs and other aid focused on rural villages, and on vocational training.

At the 1991 Consultative Group meetings, Germany announced its support for the Privatization Fund, co-finance for SFD and its intention to continue to assist with Egypt's structural adjustment program.

3.1.7 French aid to Egypt

French aid fluctuates in amount from one year to the next: in 1987 it was $102 million, in 1989 it was $61 million[16].

About 60% of French ODA is in the form of loans, most of which are "associated finances" utilizing export credits. Such loans are mostly mixed with private sector export credits, because French aid to Egypt contains almost no Other Official Flows. Fluctuations in the proportion of total ODA flows to Egypt to total capital flows including private sector funds are, moreover, much greater in France's case than in the case of other major aid donors. The share of the total ODA sank to roughly 5% in 1983 but later, as total fund flows shrank, it grew in importance, and went down again, then in 1988, the total capital flow turned negative[17].

French aid thus far has gone to mammoth projects in agriculture, human resources development, and health and medical sector. In a 1989

DAC Country Aid Review, France announced in general that efforts were underway to help recipients restore their balance of payments, to increase grants, and to upgrade the grant element by separating official loans from private financing; it said future guidelines would stress improvement of managerial ability, improved productivity, and modernization of technology in "African countries that have achieved a certain degree of development"; it stressed the necessity of solving urban problems, with emphasis on education, health care, and sanitation, in order to carry out structural adjustments; and it promised no further increases in associated finances. But France intends neither to untie its project aid nor to eliminate chances for French companies to make profits[18].

3.1.8 Coordination among donors

Most DAC members, international organizations and financial institutions, and Arab states and financial institutions have given aid to Egypt in the past. It has not been easy to find opportunities to meet and discuss aid coordination among all these donors, but as the largest scale of them, Consultative Group meetings have been held.

In June 1991, the CG met for the first time in ten years, attended by representatives of over one hundred countries and institutions. Each attending country or organization voiced its support for Egypt's structural adjustment program. Partly because ten years had passed since the last meeting, more emphasis was placed on describing own accomplishments than on charting a future course. The World Bank, however, says it hopes to hold regular CG meetings, leaving open the possibility that the CG meetings will play a larger role in inter-donor coordination in the future.

In Egypt, the major donors' local offices periodically hold unofficial exchanges of views and information, thus far, however, this has not functioned significantly as aid coordination.

Meanwhile, the Egyptian government seems sensitive about threats to its sovereignty arising from the aid it receives and tends to view aid coordination among donors with disfavor.

3.1.9 Administrative system of aid reception in Egypt

3.1.9.1 Procedure of aid request and acceptance

Requests for aid from implementing organizations (government agencies, public corporations, governorates, etc.) are coordinated by the competent ministries, which draw up lists specifying the sources of the requests and submit the lists to the Ministry of International Cooperation. This ministry discusses the items on the list with the Ministry of Planning and other ministries, evaluates their conformity with Egypt's five-year plan and their degree of preparation, then decides priorities and action and presents requests to aid donors. Requests for the dispatch of specialists, counterpart training, and supply of material, however, are channeled by the Ministry of Foreign Affairs to appropriate donors. In some cases, however, powerful ministries and governorates may also enter into direct negotiations with donor nations.

Whenever an Exchange of Note (E/N) has taken place between the Egyptian government and a foreign aid donor, the People's Assembly must ratify the E/N to legally validate it.

While the official receiving channel for foreign aid is the Ministry of International Cooperation, actual supervision is carried out by the ministries and agencies directly concerned. When cooperation among several ministries and agencies is needed at the implementation stage to carry out, for example, rural or regional development projects, a steering committee is set up to facilitate coordination between the ministry or agency in charge and other ministries and agencies, which consult with each other about the work to be done. (In a North Sinai Integrated Rural Development Plan supported by Japan, for example, the steering committee was chaired by the Central Development Authority which is the competence authority of the Sinai Development Authority, the administering agency. Members included GARPAD (General Authority for Rehabilitation Projects and Agricultural Development), Ministry of Reconstruction, New Communities, Housing and Utilities and General Authority of Fish Resources Development. Observers from Cairo University also attended meetings.)

3.1.9.2 Problems with Egyptian aid administration

The greatest problem with the organization of aid on the Egyptian side is that, even when procedures are clearly defined, they do not function effectively or appropriately. For example, although the main channel of aid is the Ministry of International Cooperation, powerful ministries and governorates occasionally make requests directly to aid donors, complicating the process. And although it is the Ministry of International Cooperation that mainly evaluates and selects requests on the basis of discussions with the Ministry of Planning and other organizations, occasionally requests from the ministry to donors are ill prepared, calling into question the Ministry of International Cooperation's competence. Another problem can be found when steering committees are set up. Tremendous amounts of time and work are often consumed in the inter-ministerial coordination process.

Egypt's characteristic form of bureaucracy is also sometimes an obstacle to aid. The ratification of E/N by the People's Assembly is frequently slow and delays aid implementation. Other routine formalities also take a long time to carry out. And even when a steering committee is not set up, because of uncertainties about ministerial or agency jurisdictions, coordination must take place directly with the ministries involved in the project, and this, too, is often time consuming. (The other side of the coin, however, is that a powerful ministry's being in charge often facilitates the process extremely effectively.) Problems may also occur when the Egyptian cabinet is reshuffled, causing a redistribution of jurisdictions among ministries and agencies.

3.2 Recommendation on Japan's basic aid approach

3.2.1 Overall aims

Japan's basic aim is to assist Egypt to grow as a stabilizing force in the Middle East. Japan must therefore support Egypt's efforts to break out of the present economic crisis and stabilize its situation in the short term and deregulate its economy and attain economic independence in

the medium and long terms. Japan does not, however, have a long history of very close economic ties with Egypt, nor is Japan's awareness of Egypt's economic and social status anywhere near as complete as its knowledge of Asia. For Japan to achieve this basic aim of action much preparation and time will be required. In the meantime, therefore, requests to rapidly increase the scale of Japanese aid to Egypt, whether they come from Egypt or other friendly countries, must be considered with extreme prudence.

3.2.2 Precautions

Japan must be aware of and come to terms with three facts:

First, the Egyptian economy has for some time fallen fully under the sway of the moral hazard generated by lavish western aid given under U.S. leadership due to Egypt's foreign policy and military importance. We must not let this happen as a result of Japanese aid.

Second, although we do not yet have the organization that will enable us to make our own serious studies of Egypt's macroeconomic policy, the short- and medium-term macroeconomic forecasts on which the IMF and the World Bank's ERSAP aid is based do seem, at least in part, to be overly optimistic. While ERSAP aid and the series of balance of payment support and debt relief measures now in place are elaborate and on a large scale, they are no more than that, and we must voice some reservations about their chances of success.

Third and last, Japan has acquired a performance record and valuable experience in the area of technical cooperation and investment projects (both of which are for long-term development) in the framework of request-based development aid, though on a smaller scale than the Japanese aid given to major Asian aid recipients. If more aid to Egypt is required, Japan should begin by doing what it is most familiar with.

3.2.3 Recommended aid strategy

Japan's aid strategy should take likely future developments into account and comply with the following guidelines.

3.2.3.1 Japan's main activity in connection with short- and medium-term stabilization and economic liberalization policy should be to study other donor's aid strategies for the short and medium term issues, Japan's representatives should take part as no more than unassuming apprentices in international macroeconomic policy meetings. We have no intention of belittling the importance of short-term and medium-term policy; if it succeeds and if Egypt's stability and appropriate growth can be restored, its creditworthiness will return, the flight of capital (said to be in the tens of billions of dollars) will stop, and this money will return to Egypt. But given its geopolitical importance, Egypt will never be abandoned, even if short-term and medium-term policies fail; if this should happen, foreign funds will again pour into Egypt in huge amounts, and additional debt alleviation will become necessary.

For those reasons explained in 3.2.2. Precautions, however, the wisest course for Japan is to refrain from making remarks or presenting active aid plans in this area of policy for the time being. Sooner or later, Japan will be asked to share a considerably larger part of the burden in this region of the globe. As soon as possible, therefore, Japan should prepare itself to speak out actively on short-term macroeconomic and related structural adjustment policies, based on adequate study and research.

3.2.3.2 To make clear Japan's commitment to aid for Egypt, Japan must increase its support for long-term development programs in orderly steps.

Aid should be focused on support for the formulation of industrial structural policies aiming at Egypt's economical independence, taking advantage of Japan's own experience (which is not reflected in IMF and World Bank aid programs); projects and other types of aid should be increasingly linked to this industrial structural policy.

Two points must be kept in mind in implementing this orderly, stage-wise support for long-term development:

First, specific aid programs should be chosen by reviewing actual experiences with existing aid programs and expanding their overall scale gradually in accordance with five-year country program targets or other

benchmarks.

Second, the aid strategies that emerge from the work of this study group should be the result of step-wise procedures leading to effective aid strategies for individual countries. In this way, they will serve as the framework for assigning roles to individual aid projects and for deciding the order of priorities. Our help in formulating industrial structural policy signifies our recognition of the importance of strategy in this framework.

3.2.3.3 It is wise for Japan to adopt a resolute attitude in the attribution of aid, realizing that lavish aid generates moral hazard.

We limit ourselves here to citing an instructive example: the UNDP Management Development Program Mission sent to Egypt. It did not mince its words when describing the problems it saw, citing four areas where Egyptian administrative practices were impeding Egypt's economic reconstruction:

a. Public sector attitudes are grounded in welfare concepts rather than sound economic principles. This does not generate efficiency. The welfare state mentality is at the root of administrative controls that distort prices and destroy the nation's ability of investment.

b. Bureaucracy has grown to gargantuan proportions. Side effects of this include staff redundancies and excessive over concentration of decision making power.

c. Public sector management and problem solving is comprehensive and consistent, even systematic, but it is based more on crisis management than on long-term policy.

d. Economic controls have been exercised within an internally inconsistent legislative framework, generating interruptions of supervision and rivalries between sectors(19).

Whether welfare policy and state intervention are right or wrong is often disputed. But when they grow out of proportion and continue to grow, the situation is no longer a disputable issue, and such incontestable

excesses are often seen in Egypt. This report often mentions where these problems lie, but the early addressing of the need for reform is no less important than pointing out the area where the specific problems lie.

3.3 Japanese aid strategy and stabilization and structural adjustment policies

Relevant to the stabilization and structural adjustment policies, Japan should especially watch developments in the following areas, asking the following questions:

a. Are thorough stabilization and structural adjustment programs being strictly implemented, with attention to political and social responses? In the initial phase of program implementation, a drop in the economic growth rate is expected, but how big a drop will it be? What impact will it have on the unemployment rate? How effective is the Social Fund for Development?

b. How successful are plans to compress the public and expand the private sector? How are public investment cutbacks, privatization of public enterprises, and activation of the private sector being implemented?

c. How effective in terms of production increase is decontrol of agricultural products pricing, production, and distribution, and what impact does it have on the welfare of rural populations, especially landless farmers?

In the following paragraphs, we discuss the topics that must be studied and ways to go about research.

3.3.1 Japan should seriously begin basic pilot studies in the country on macroeconomic aspects of stabilization and structural adjustment policies that will lead to new aid approaches for the Middle East and Africa region. Taking part in macroeconomic research work by the IMF and the World Bank can be a step in this direction.

3.3.2 Such structural adjustment issues as restructuring of the public

sector, activation of the private sector, and reform of the agricultural sector are issues common to all economic policy in developing countries. Because Japan's stock of research data on the Middle East and Africa region is scanty, it is again desirable to take up Egypt's case as a pilot study.

3.3.3 Incentives for direct investment by foreign manufacturing firms can be an effective option in private sector activation policies; as a step toward carrying out the recommendations of the previous paragraph, these incentives should be studied jointly by impartial researchers from both countries to identify what must be done in both countries to improve conditions for direct investment. It might help to include Southeast Asian cases in the scope of the study as successful examples of economic stimulation via foreign investment.

3.4 Long-term development aid programs

Egypt's road to long-term development must be followed slowly and steadily, beginning by consolidating the basis for industrialization by raising production technology levels and increasing export competitiveness (Egypt's present level of productivity and export competitiveness are far less than those of India in metals and machinery for example), then breaking away from the production and export of raw materials and shifting to the export of manufactured goods. Japan's long-term aid should adopt at the present stage, a step-wise approach to support for Egypt's long-term goals. The first step is seriously to study potential aid priority areas, especially the aspects of Egypt's present situation that are unknown to us. Once the unknowns are clarified, the second step is to formulate timely and suitable forms of program aid and then to take the procedures necessary to implement them.

3.4.1 Industrial structural policy missions

Most worthy of study in the first step is the basic survey for formulating industrial structural policy. Even when a market-oriented economic policy is set up, considerable time must pass before the "invisible hand" of the

market can guide Egypt's economic system toward a sound industrial structure, especially one with a vigorous and growing export industry. We have already stated that the IMF and the World Bank are not very sympathetic with this idea, but Japan understands this point well and has much experience with formulating and implementing policies in this area.

This is the highest priority item from our standpoint. Japan should begin by organizing a major study mission whose principal objectives should be first to obtain all the information needed to formulate an industrial structural policy aimed at enabling the Egyptian economy to achieve long-term independence. The study mission should also keep in mind the need to absorb surplus manpower and to foster an export industry to balance the current account in Egypt, and then to establish Japanese aid proposals in accordance with programs designed via this process. Priority tasks include the following:

a. Analysis of the present structural, managerial, and technological status of the four major industries (textiles, foods, chemicals, and metals and engineering);

b. Long-term vision of Egypt's industrial structure, including its potential for developing new export industries;

c. Study of companies' choices of technology and equipment (especially computerization) and organizational reform (total quality control, "just-in-time" inventory control, standardization, etc.);

d. Investigation of public enterprise management, internal organization, and business performance;

e. Estimation of private sector development potential, especially in manufacturing;

f. Characterization of industrial structure, in terms of labor force absorption.

3.4.2 Agriculture

The most important blind spots in Japanese knowledge of Egyptian agriculture are the impact of changes since the third land reform, the effects of the exodus of Egyptian workers to the Gulf states on rural land

ownership and the class structure of farmers with land holdings of different sizes, the degree to which traditional community customs survive in today's villages, and the extent of regional variability in these aspects. The effects of agricultural price decontrol are likely to differ considerably depending on these factors, and the effectiveness of other measures directed at basic infrastructure, agricultural technology, and environmental problems would probably also be influenced. If we find after conducting a relatively small-scale survey that Japan is in a relatively good position to give effective aid in these areas, a larger study should be organized and attention should turn eventually to formulating priority aid projects.

3.4.3 Unemployment, poverty, and social welfare issues

If a smaller study uncovers areas where Japan could give effective aid, a followup study should then be organized to design specific aid proposals.

3.5 Challenges anticipated in the light of JICA & OECF experience

We have mentioned that, in the past, Japan has provided Egypt solely with aid on a "request basis" principle, and generally therefore aid has not been backed by systematic studies of Egypt's economic situation or development issues, nor have aid decisions been based on systematic development and aid strategy studies. Some development surveys (notably Master Plans) have been undertaken on request, however, thus providing systematic studies in some areas, and Japanese aid concerned agencies have conducted valuable development strategy and aid strategy studies. Tasks are addressed below, in the light of this experience and of aid evaluations undertaken by the Japan International Cooperation Agency (JICA) and Overseas Economic Cooperation Fund (OECF), both of which have parts to play in screening and carrying out projects referred to in Step 6, the administrative steps of aid strategy formulation.

3.5.1 More thorough and extensive Development Studies

Japan has provided Egypt with all forms of technical cooperation except Japan Overseas Cooperation Volunteer (JOCV). To compile the basic information needed to carry out Egypt's development plans, "Development Studies" are undertaken. Typical types include Master Plan Studies, from which plans for large-scale integrated projects and regional development projects and sectoral development projects are drawn up, and Feasibility Studies, which assess the viability of individual projects.

Master Plan Studies in particular should be termed the point of reference for overall development assistance, including loan assistance and grant aid, since they are closely involved in Steps 1 through 3 of individual country aid-strategy formulation. Thus far, however, most Development Studies in the industry sector have only been Feasibility Studies; genuine Master Plan Studies were few, and most of those actually carried out involved mainly pre-feasibility-study-level research. In conducting Development Studies to date, attention has consequently been focused mainly on the degree to which survey results contribute to the implementation of loan-assistance, grant-aid, and other types of aid projects. The roles played by individual projects in the overall economy and their relationship to other projects have not been seriously considered.

Japan's active participation in development planning, beginning at the concept stage, is being increasingly sought. Development Studies play an important role in providing valuable basic data, and a full-fledged Master Plan Studies covering particularly important sectors and regions, augmented by a national economic perspective, is of significant importance. The role of Development Studies should also be examined in addressing problems related to the environment, poverty, women in development, education, and other cross sectoral issues.

More thought must also be given to improving systems for assistance on a country-by-country basis. Development Studies can help here, too, in each following process: drafting aid plans, coordinating JICA aid in various forms, and harmonizing activities by JICA, OECF, and other organizations in Japan. To this end, a better system for maintainence, provision, and utilization is needed.

3.5.2 Pursuit of best project sustainability

It has been pointed out that the sustainability of technical cooperation and grant aid for Egypt poses numerous problems in every area. They include Egypt's inability to meet local costs, difficulties in procuring materials and spare parts, and transference of local counterparts (who have received training). As major social and economic structural changes are expected following the economic reforms underway, each project's sustainability must be more carefully assessed than ever before. Both ample preliminary research taking into consideration the sectoral and macroeconomic environments and minute monitoring and evaluation analyses are needed. And once adequate research has demonstrated that a project is sustainable, a flexible approach for local cost burdening and other issues— i.e., one that does not focus too rigidly on the recipient country's self-help efforts — is needed to implement the project.

3.5.3 Better coordination of forms of aid

In Egypt's case, aid coordination among Japanese aid forms has been realized to some extent: coordination between technical cooperation and grant aid or loan assistance, among various types of technical cooperation. Additional promotion efforts for this type of aid coordination are needed. Cooperative arrangements with NGOs also deserve consideration, with the objective of ensuring that the benefits of assistance reach the grass roots level. Systematic collection and feedback of information gathered from a variety of sources and making it readily available ought to increase the efficiency and accuracy of all kinds of surveys and research, but available information, including that obtained from experts and trainees, is in fact not being used satisfactorily. Coordination of the various forms of aid will be improved by making more effective use of available data, but at the same time better coordination of the various types of aid is needed to improve information collection and management.

3.5.4 Better evaluation and planning methods

It is important to systematically accumulate documentation on aid experiences to Egypt and to make continuous improvements by applying them to subsequent project planning, but to facilitate this, evaluation and project planning should be based on appropriate standardized methods permitting two-way comparisons.

Better, standardized evaluation and project planning procedures will facilitate the documentation of experiences and enable a systematic idea to be formed of how aid has been provided. This will greatly facilitate the application to Egypt of experience with aid to other countries and regions and vice versa, it will also enhance the harmonization of different forms of Japanese aid, and it will promote the coordination of efforts between aid donors — an aspect whose importance is expected to grow.

3.5.5 Upgrading overseas office capabilities

Local offices situated close to aid project sites are responsible for following up projects from the project finding and request stage to completion. They also have an extremely important role in coordinating the various project plans and facilitating arrangements between aid donors. It is urgent to make these offices better able to perform their functions. In the future, an enhanced research capability is envisioned, but initial efforts should focus on improving the collection, analysis, filing, and availability of information and on improving project followup.

3.5.6 Training in Third Countries

Four projects of Training in Third Countries have been carried out in Egypt. Of all the countries of this region, Egypt has one of the highest levels of technology and personnel in many fields, and is highly committed to these sorts of projects; project management has encountered very few problems.

Future aid of this type to Egypt should continue to consider the regional perspective. To date, however, no evaluations of the effectiveness

of the regional impact of Training in Third Countries in Egypt have been made. This should be done, as it will be of value in assisting the planning and implementation of the Training in Third Countries both in Egypt and wherever else Egyptians may be trainees.

3.5.7 More efficient aid implementation procedures

The Egyptian government often objects to some of the official procedures for providing Egypt with loan assistance and grant aid, and excessive time is required for an Exchange of Note to become effective. These points require coordinated attention by both sides, and whatever is needed should be done, since objections and delays obviously lessen the efficacy of aid.

Major differences in the project management ability of different counterpart organizations have also significantly affected project success. Making decisions on aid projects requires that the counterpart's administrative abilities be taken fully into account, and additional assistance to upgrade them also be considered. On top of this, aid conditions must be clearly explained, and when necessary, improvements must be sought.

3.6 Japanese aid implementation

Based on the above analyses of strategies for aid to Egypt and trends among major donor countries and organizations, we offer the following suggestions about how Japan should approach aid in each main sector.

3.6.1 Industry

3.6.1.1 Assistance in industrial structural policy planning

An appropriate long-range industrial structure and, most importantly, a policy for effecting this structure must be considered so that, by earning foreign exchange and creating jobs through stimulation of industrial exports, Egypt's economy can be made self-supporting over the long term.

The crucial importance of industrial structural policy has been proved by Japan, South Korea, Taiwan, and nations with similar experiences.

When we discuss the industrial structural policy in Egypt, these experiences of Japan and others would be of great value. To formulate and implement such a policy for Egypt, it is extremely important that public administration be able to take measures (including fiscal and monetary policy) that inspire the confidence of the business world in Egypt. In short, one of the keys to the success of industrial policy is certainly the administrative ability that will enable Egypt to carry out the policies required for its development.

Should Egypt's administrative capacity be found inadequate to formulate and implement an industrial structural policy, Japan could help by calling on its postwar experience, organizing survey missions, and dispatching experts to provide appropriate advice.

3.6.1.2 Foreign capital introduction policy planning

Economic growth since the late 1980s in countries like Thailand and Malaysia provides a good example of how to increase Egypt's manufacturing capacity over the long term. Boosted by an ambitious introduction of direct investments from private enterprises of industrial nations, these countries have been able to achieve their export oriented industrialization policies efficiently. The above-mentioned experiences in Asia suggest that developing countries could overcome their pessimism about their export chances and that with the help of direct foreign investment they could achieve economic growth based on a vertical international specification and intra-industry specialization. This fact shows us that present foreign capital policies in developing countries should be reviewed from the stand point of harmonization with their export and industrial policies.

Based on these Asian experiences, it is believed that Egypt must devise measures to attract foreign capital in the framework of an export strategy and a national policy of designating specific industries suiting these strategies. Japan's post-war foreign-capital-incentives policy and, more recently, the role of Japanese direct investment in fostering rapid economic development in Thailand and Malaysia furnish guidelines that can be beneficial in planning Egypt's policies. Japan can offer Egypt significant help in drawing up specific foreign capital introduction policies. These could include tax and financial policies favorable to the foreign

investment which have organic linkage with export strategy, and a strategy for improving transportation, communications, and other infrastructure.

3.6.1.3 Privatization support

One way to improve the management of Egypt's public enterprises — which account for much of the nation's industrial sector and generate many of the impediments to its progress — is to pursue further privatization under the present structural adjustment programs. Such a process, however, must be carried out gradually, so as not to generate serious employment crisis or other social problems. Immediate steps should focus on enlarging the scope of autonomy while separating public enterprises' ownership and management. More specifically, the right of decision on price, wage, employment, and sales should be transferred increasingly to the managers, and accounting and auditing systems should be streamlined and better adapted to requirements. As privatization makes progress, it becomes increasingly necessary to reform and promote financial and stock markets.

Here also, Japan's experience can be valuable; Japan disposed of its state enterprises during the Meiji era (1868-1912) and more recently privatized the former Japanese National Railways and Nippon Telegraph and Telephone Corporation. It is highly recommended that experienced personnel be sent who can lead and advise in such matters as improving management systems, devising better accounting systems, and reforming the financial and stock markets.

3.6.1.4 Support for small and medium enterprises

The promotion of small and medium enterprises in Egypt can be instrumental in fostering stability in the short and medium term and in achieving productivity increases in the long term. Smaller enterprises can be particularly effective export growth promoters. Promotion efforts directed at small and medium enterprises' exports should emphasize their production efficiency, computerization and the introduction of other modern technologies, meticulous attention to product quality, and a knowledge-intensive orientation. To foster enterprises with this orientation, intel-

lectual management must be stressed, premised on product and technology development, marketing, and the integration of management resources.

Japan's experience in this area stems from a July 1972 Small and Medium Enterprise Policy Making Council report containing a comprehensive industrial structuring plan for the 1970s based on the promotion of knowledge-intensive industries. Since then, the Japan Small Business Corporation, the Small and Medium Enterprise General Guidance Center, and various public testing and research laboratories have provided back-up support of guidance and cooperation systems, paving the way for today's knowledge-intensive small and medium enterprises. In this area, Japan can assist Egypt in several ways. Through on-site studies, for example, experts sent to Egypt can survey the feasibility of promoting the formation of such enterprises and provide specific, systematic advice on organizational reforms to accommodate the transition. This is certain to be highly effective.

3.6.1.5 Assistance in compiling statistical data

Problems are often encountered in conducting detailed analyses and studies of Egypt's industrial sector due to inadequacies and shortages of the requisite statistical data and various information. The same problem also affects other sectors. These deficiencies may originate in shortages in national organizations and lowly skilled personnel whose task it is to collect such information as well as in the long established system of price controls, which generated disparities between controlled prices and their shadow prices. Because Egypt is now striving to overcome its economic difficulties and reform its economy, however, it is urgent to improve this situation.

The ripple effects of aid in this fundamental area could be immense. Aid could take the form of establishing systems and organizations for maintaining statistics and data. Specifically, technical cooperation including technical training programs for personnel tasked with collecting and analyzing this information, experts dispatched as advisers, and equipment support with computers and other tools and facilities will be highly effective. Such aid should be supplied with the cooperation of, and in coordination

with, the World Bank and USAID and other main donors, which have carried out many economic surveys in Egypt and compiled statistics and data by themselves.

3.6.2 Agriculture

3.6.2.1 Improving agricultural productivity and promoting agricultural exports

To effect sustained improvements in Egypt's sagging agricultural productivity and provide farmers with farming guidelines after abolition of control on crop area, Japan should cooperate with Egypt in applications of research and testing to establish appropriate crop rotation with emphasis on regional requirements, profitability and soil and water management. Agricultural extension staff are also required to improve their services, as do the educators who train them. And it is also worth considering cooperation aimed both at establishing systems to link research and testing to agricultural extension services and at creating working models of such systems.

Donor countries should provide assistance in their respective fields of specialty. Japan knows, for instance, how to mechanize the cultivation and harvest of high-yield rice varieties, to reduce post-harvest losses, and to maintain quality throughout the stages of rice polishing, storage, and distribution. By supplying this knowledge, Japan has contributed to advancing Egypt's rice cultivating techniques; it should continue to help in this way.

Assistance in promoting its agricultural product exports is also important; distribution and market surveys would be valuable in this regard, as would training in trade practices and the dispatching of development planners in advisory capacities. To promote the cultivation of vegetables and fruits with export potential, transfers of Japanese technology and knowledge in crop breeding and cultivation, fruit sorting, processing, quality control, distribution, and market surveys are recommended.

3.6.2.2 Ensuring more efficient use of land and water resources

Egypt's urbanization has been accompanied by a decline in agricultural acreage and deterioration of soil quality caused by insufficient drainage and salt accumulation. Under these circumstances, in order to increase agricultural productivity, it is vital to maximize the efficiency of the use of Egypt's limited land and water resources. Preserving the fertility of existing farmland by controlling fertilizer use, improving drainage, and preventing salt damage will require monitoring and other testing and research assistance. Also desirable is aid for the enhancement of the experimental capabilities of research laboratories and university facilities which will be the center for these research studies. Existing water supply systems must be improved to be more efficient because major new water resources are very unlikely to be developed. This will require maintenance and management of existing irrigation and drainage facilities and the development of drain-water recycling technology and water-saving irrigation technology for fields and orchards. Japan can also provide assistance in this area. Development Studies are currently being directed toward rehabilitating aging facilities which cause significant water losses; such studies should continue. Japan can also assist in forming local irrigation associations and other organizations which carry out appropriate water management and facility maintenance.

3.6.2.3 Eliminating poverty and environmental conservation in rural villages

Employment opportunities must be created within the rural community to stem the increasing concentration of population in cities caused by internal migration from rural areas and alleviate the latent unemployment problem. This could be accomplished through, for example,"horizontal expansion," setting up labor-intensive public projects for land reclamation and apportioning it. Such efforts should be limited geographically, with priority on land along the Nile River and near deltas, where land is potentially the most fertile, and have a objective of supporting the economic independence of settlers in the new land. Trial cultivation of potentially profitable new crops and basic research into experimental harvesting and processing methods are needed to find better types of horizontal expansion with the

production of higher-value-added crops. The possibility of cooperation in poultry and other livestock as well as in fisheries should be considered. In order to achieve rural village development, better infrastructure is needed including water supplies, roads, electricity, medical care, and education and development of regional agro-industries is also an element. Japan should provide assistance in vocational training and the building of rural infrastructure, drawing on its own experience with local self-governing bodies.

On the environmental conservation side in rural villages, Japan's anti-pollution technology and waterways maintenance will contribute to Egypt's efforts in water quality control, mainly in the areas of urban sewage control and schistosomiasis control. Providing assistance in basic afforestation research — including wind shelters and planting trees to arrest shifting sand, for example — would also be beneficial to global environmental conservation efforts.

3.6.2.4 Agricultural decontrol

The Egyptian government is currently carrying out structural adjustment programs under IMF and World Bank guidance. In agriculture, these adjustments take the form of abolishing controls on prices and crop areas. The compulsory rice procurement system has been scrapped, leaving controls on only two crops: raw cotton and sugar cane. The area allocation for raw cotton will also be abolished; the goal is to move the government's procurement price of raw cotton closer to the international market price over the next three to five years. Subsidies on livestock fodder, fertilizers, and agrochemicals are also scheduled for removal. And progress is being made toward selling public farms, facilities, and machinery to the private sector. The privatization of food processing, distribution, and sales, currently under the jurisdiction of the Principal Bank for Development and Agricultural Credit (PBDAC), is also being studied.

Through these measures, nation-wide increase in the output of wheat, cotton and other crops and overall income levels of farms are expected. At the same time, however, the structural adjustment programs may force

farmers to shoulder new tasks in water and soil management, production, sales and so forth. Dealing with these challenges should be based on research or other studies, as mentioned in section 3.4.2, and on maintaining and expanding the range of agricultural statistical data. Agricultural cooperatives would also be expected to play a major role. The possibility of Japanese aid in these matters should be considered.

It should be mentioned that the structural adjustment programs are likely to place a temporary burden on the poor and small-scale farmers. To ease this burden, Japan should consider providing grant aid for increased food production.

3.6.3 Employment and human resources development

3.6.3.1 Training for small and medium enterprise promotion

Small and medium enterprises are being counted on more than any other sector to absorb labor as Egypt's economy becomes increasingly decontrolled. Helping Egypt to promote its smaller enterprises thus holds the key to resolving unemployment problems. But shortages of skilled technicians, quality control experts, and managers able to deal appropriately with free market changes impede these businesses' development. Assistance is vitally needed to enlarge the scope of public job training systems, which will be instrumental in training personnel for small and medium businesses. In particular, the shortage of instructors with actual job experience and the traditional overemphasis on theoretical training have widened the gap between the contents of job training and required skills and knowledge in the real-world. Assistance in this field should focus on instructors' retraining and improvement of institutions which conduct the instructors' training. In determining specific sectors as training priorities, it is extremely important to take into account the linkage to studies conducted to formulate proposed industrial policy or their findings refering to industrial policy, and the progress of other industries in labor absorption.

Simultaneous cooperation at the policy level is also important in improving vocational training policies, revising curricula, and establishing uniform qualifications. In policy formulation, it is important to recognize

that the public and the private sector must be assigned appropriate roles including the assignment of internal company training to the private sector.

3.6.3.2 Promoting regional industry in rural areas

Assistance is needed to promote regional industries to provide employment opportunities in rural areas, to absorb latent rural unemployment, and to stem the flow of unemployed workers to urban centers. Such regional industries as furniture production in Damietta and carpet production in upper Egypt are now well established. Japan's cooperation could assist fact-finding in these industries, technical cooperation to raise their productivity, and marketing surveys to determine export industry viability.

In other regions, especially impoverished areas, industries must be promoted in order to create income generating opportunities. Specifically, cottage industries and crop processing industries offer possibilities. To develop these possibilities, vocational training, infrastructure building, and funding assistance for establishing small and medium businesses are needed. The first necessary step is to carry out Development Studies to scout possibilities for such industries.

Providing women with employment opportunities would also be effective in supplementing family incomes. Egypt's Ministry of Social Affairs is carrying out a Productive Families Project in collaboration with each governorate. Various successes have been achieved, particularly in cottage industries which have connection with jobs of women in rural areas, such as rug weaving, woodworking, bamboo handicrafts, ivory and bone carving, embroidering, print making, and doll making. The World Bank has decided to provide funding for this project through the SFD. Japan should also consider extending assistance to this project.

3.6.3.3 Establishing systems to maintain and provide labor market information

To effectively allocate trained personnel and increase labor force mobility, it is necessary to accurately identify personnel supply and demand trends (including the international labor market), and build systems capable

of providing this information. Support for the establishment of such labor market information systems is also valuable.

3.6.4 Health and medical services

3.6.4.1 Improving the quality of primary health care

Comprehensive aid is needed to improve primary health care and should be carried out focusing on the PHC network regarding health units and health centers as one unit. Suggestions include setting up model regions for training doctors, hospital nurses, public health nurses, and midwives as teams in clinical settings, supporting drives to spur local citizens to actively participate in health and medical care programs. Ripple effect to the neighboring regions is anticipated through medical personnel trained at the model site, and performance of the model project itself. These activities should be carried out in cooperation with the university hospitals that train medical personnel and the Ministry of Health, which exercises control over the primary health care system. It is also important to improve primary health care education within the medical training system itself, particularly with regard to clinical training. The establishment and operation of centers for pre-service training of newly-appointed doctors before they are sent to health units and centers should also be supported.

3.6.4.2 Increase in graduate-level nurses

The Egyptian government is currently stressing higher institute-level training for nurses, recognizing that to elevate the nation's medical care standards, increasing the number of nurses and the quality of nursing care is even more essential than increasing the number of doctors. At present, the majority of nurses are diploma nurses and for this reason nurses as a professional category do not have a high social standing. Because of this, there will be some significance in providing university-level training for nurses. Although present support for nurse training is meeting with success, further cooperation is needed to improve nursing school facilities. Assistance in this area would also have a significant impact on primary health care by preparing nurses to exercise leadership in public health

care guidance and education.

3.6.4.3 Combating schistosomiasis

Using experience gained from a JICA project in the Philippines, Japan should assist Egypt in combating schistosomiasis. This should be done through comprehensive programs including environmental improvement and technical transfers of prevention and treatment.

3.6.4.4 Enhancing the quality of curative health care

In order to improve the quality of public curative health care Japan should supply Egypt with medical equipment and supplies which procurements have been jeopardized by insufficient medical budget allocations. In this aid, adequate consideration and choice must be given to the ease of procurement of spare parts and to maintenance and management costs. The education and training of middle-level physicians and medical technicians should also be continued.

3.6.5 Other priorities

3.6.5.1 The environment

Japan has accumulated a wealth of experience, knowledge, and technology in diverse environmental pollution fields. In the past, it has supported Egypt's efforts to build water supply and sewerage networks and waste disposal facilities. Further support is possible in this area.

In conjunction with future aid to boost public enterprise productivity, it would be desirable to conduct fact-finding surveys of the pollutants now being discharged by Egypt's factories and to offer assistance in setting up appropriate treatment facilities. Because helping to resolve environmental degradation will become increasingly important in the future, basic research is needed to collect the requisite basic data lacking at present. Carrying out these studies will require assistance to create legislative and organizational systems to train personnel.

3.6.5.2 Women in development

Because the status and role of women in Egyptian society are still not well understood, studies must be performed to assess women's role in health, education, and production. In so doing, experience gained from nursing training, family planning, and other projects currently underway should be used as reference in shaping forms of Japanese aid.

3.6.5.3 Poverty

The implementation of Egypt's structural adjustment programs is expected to have a major impact on the poor; easing this impact is a key to the success of the policy itself. To cushion this impact, Japan should coordinate its aid to the greatest possible extent with the Social Fund for Development program in progress. For example, Japan could assist in providing labor market information to complement the Labor Mobility program, assist with vocational and technological training in conformity with the Enterprise Development program and the Labor Mobility program, and cooperate in primary health care.

To alleviate poverty over the long term, aid is needed that helps to meet basic human needs, including water and sewerage system construction in impoverished areas. Increasing the effectiveness of such assistance necessitates the consideration of aid forms that allow local community participation in forms suitable to each region (such as cooperative arrangements NGO or resident organizations).

3.6.5.4 Education

Egypt's primary and technical education require qualitative and quantitative improvement. This will necessitate assistance in constructing and furnishing school buildings, providing teaching materials, providing teacher-training facilities and materials, and developing curricula.

Notes:

(1) Ministry of Foreign Affairs (ed.). Japan's ODA, Association for Promotion of International Cooperation, 1991, Vol.II, pp.241-245.
(2) OECD. Geographical Distribution of Financial Flows to Developing Countries.
(3) Calculated using data from Ministry of Foreign Affairs (ed.). Japan's ODA, Overseas Cooperation Promotion Association, 1991, Vol.II.
(4) OECD. *op. cit.*
(5) Ibid.
(6) Ibid.
(7) OECD. Development Assistance.
(8) William J. Burus. Economic Aid and American Policy Toward Egypt, 1955-1981, State University of New York Press, 1985.
(9) OECD. Geographical Distribution of Financial Flows to Developing Countries.
(10) USAID. United States Economic Assistance to Egypt: Status Report, 1990.
(11) OECD. Geographical Distribution of Financial Flows to Developing Countries.
(12) UNDP. UNDP Advisory Note on the Fifth Country Programme of Egypt (1992-1996), May 13, 1991, Cairo.
(13) OECD. Geographical Distribution of Financial Flows to Developing Countries.
(14) EC. Arab Republic of Egypt Cooperation Agreement Report, 01.01.1988-30.06.1989.
(15) OECD. Geographical Distribution of Financial Flows to Developing Countries.
(16) Ibid.
(17) Ibid.
(18) Kokusai Kyoryoku Tokubetsu Joho, Vol.15, No.6, pp.13-19.
(19) UNDP. op. cit.

II. Specific Topics for Discussion

1. Industry

1.1 Status and issues of development

1.1.1 Historical background and issues

In the approximately two-century history of Egyptian modernization from the reign of Muhammad Ali until today, despite the Egyptians' desire to extricate Egypt from its monocultural economy through industrialization, only two periods exist in which the industrial sector, particularly manufacturing, can be regarded as having achieved significant growth(1). The first began when Egypt's tariff autonomy was restored in 1930, and lasted a little over ten years until World War II. The second was a period of slightly less than 20 years from the postwar reconstruction era until 1964. In both cases the private sector played a main role(2). Before these periods — for example, from 1816 to the late 1830s — attempts at diversified industrialization, chiefly in the state-owned textile industry, had been made but had failed. A monocultural economy dependent on raw cotton exports was subsequently established.

However, the pace of industrialization was speeded up through the government's import substitution policy, which was aggressively promoted after the restoration of tariff autonomy in 1930, and through the activity of the private-sector, including the Misr Group, whose activity had picked up since the 1920s.

Shortly thereafter, the Second World War broke out and controls were strengthened on trade, supplies of industrial inputs, pricing, and foreign exchange. Yet private sector firms retained relative freedom, making progress in import substitution and capital accumulation until the end of the war. From 1945 until 1964, manufacturing grew with considerable rapidity, recording annual growth rates ranging from 5.6% to 7.2%(3). The industrial sector has shown no major growth since then, however. Assailed now by domestic economic problems, Egypt continues to count on its industry for economic growth, foreign exchange, and employment.

1.1.2 Two development issues

In order to investigate Egyptian industry's long-term development and policy objectives, it is most important to clarify the development issues of the industrial sector. The available data and statistics, however, are inadequate for this task, making it very difficult to clearly address long-term issues.

We have consequently chosen to approach the industrial sector's long-term development by focusing on two issues which are extremely important in terms of Egypt's long-term economic development, and by taking into account the present state of development. One issue is Egypt's long-term economic independence and the other is unemployment. The reason for choosing these two issues is that Egypt's achievement of long-term development is believed to be quite difficult without the achievement of long-term economic independence and without a solution to the problem of unemployment because these two problems are at the root of Egypt's huge cumulative debt, as explained in detail in Part I.

Egypt's long-term economic independence is a basic prerequisite to achieving a stable economy and sustainable development, and avoiding both a debt crisis and a worsening of its current account balance. From this perspective, it is clear that, as discussed in detail in the next chapter, the industrial sector, especially the export-oriented manufacturing industry, cannot sustain the role of the driving force for economic development because the share of the gross domestic product accounted for by industry and manufactured goods in total exports is insufficient. For this reason, Egypt's challenge is to identify policy approaches that will build an industrial structure conducive to exports of industrial goods.

Unemployment is another extremely important issue in the achievement of stable, sustainable economic and social development and this problem has become increasingly serious since the 1980s, with an official unemployment rate of about 15%[4] and considerable latent unemployment. We can see from the fact that the percentage of employment in the industrial sector remains at a low level that the industrial sector has contributed neither to Egyptian economic development nor employment. In this respect, Egypt

must face the development issue of creating employment in the industrial sector, since prospects are not good in the agricultural, service and informal sectors, which have been the main source of labor absorption in the past.

Thus when Egyptian industry is viewed cross-sectionally, keeping in mind the need to achieve long-term economic independence and employment opportunities, two major policy challenges stand out: how to restructure the manufacturing industry so that it can produce competitive goods for export and how to increase its labor absorbing capacity.

In order to simultaneously accomplish these two objectives, it is necessary to establish a broad-based industrial structure that has both the ability to produce competitive exports and to absorb a growing labor force. In the present situation of Egypt's manufacturing sector, where all production steps are completed in the same plant, industrial development should probably be based on a dual structure where industries with comparative advantage in producing export-oriented manufactured goods exist side by side with industries with high labor absorbing capacity.

1.1.3 Obstacles to Egypt's industrialization

Section 1.1.2 gave an overview of the roles to be played by Egypt's industrial sector by focusing on two issues crucial to the achievement of sustained development: Egypt's long-term economic independence and job creation. This section analyzes in greater detail the stages of Egypt's industrialization and roles that industry should play.

1.1.3.1 External factors affecting Egyptian industry (the critical situation of the current account balance and stagnancy in non-oil industrial exports)

Table 1-1 shows trends in Egypt's current account balance from 1970 to 1988. This period's salient characteristic was a sharp increase in oil revenues while exports of such traditional products as raw cotton declined. Service revenues also increased. The data show that the current account balance has run a deficit in every year except 1983, when there was a

sharp increase in workers' remittances home by Egyptians working abroad, and 1987, when interest payments were eased by debt rescheduling. They also show that the deficit tended to grow, although not continuously.

Figure 1-1 shows Egypt's foreign exchange earnings structure, which was the backdrop for Egypt's worsening current account. Egypt became a net oil exporter in the middle of the 1970s, and successfully increased oil revenues owing to increases both in oil price and production. In addition, revenues from the Suez canal (the canal reopened in 1975) and tourism, and workers' remittances home have increased sharply, helping Egypt to earn foreign exchange. Among the major reasons for the increase in remittances home by Egyptian laborers abroad was increased labor demand in the Gulf oil-producing countries and in North Africa as well as the introduction of a preferential foreign exchange rate system, introduced in 1973, that made exchange rates for Egyptian pounds sent or brought home by Egyptians working abroad 50% to 55% lower than ordinary rates(5).

At almost the same time that foreign exchange acquisitions increased, symptoms of the "Dutch disease," caused by windfall income from the oil boom, became widespread in the Egyptian economy. Amidst continuing overvaluation of Egyptian pounds, resources once designated for tradable goods production tended increasingly to be diverted to non-tradable ones. This led to a sharp reduction in the percentage of non-oil exports, from 68% of all goods and service exports in 1973 to 25% in 1979(6). Moreover, due to an open-door policy, the private sector was authorized to participate in the import business and in-flows of OPEC and Western capital sharply increased, which resulted in an increase in goods imports. Together, these changes appear to have contributed to chronic deficits in the current account balance.

The deficit in the current account balance widened: the oil glut of 1986 triggered a sharp drop in oil revenues, while the money sent home by migrant workers declined due to recessions in neighboring countries; some, such as Iraq, restricted the expatriation of foreign exchange, while Libya announced the expulsion of foreign laborers. In addition, food imports and interest payments gradually increased, while non-oil exports did not increase much. These intricate and interrelated factors loomed ever larger, resulting inevitably in a critical situation for the current account balance.

Foreign exchange reserves tended to increase, albeit irregularly, in the 1980s. However, except in 1987, Egypt's foreign exchange reserves have not been sufficient to cover imports of two months, which is considered a critical level, creating an extremely serious situation(7).

Egypt can no longer depend on major increases in its main sources of foreign exchange: oil, remittances from its workers abroad, and the Suez canal. Given the virtual certainty that import liberalization initiated under the structural adjustment program and increases in food imports will continue, the establishment and expansion of industrial exports are absolutely necessary if Egypt is to overcome the critical issues of its current account and spiraling debt.

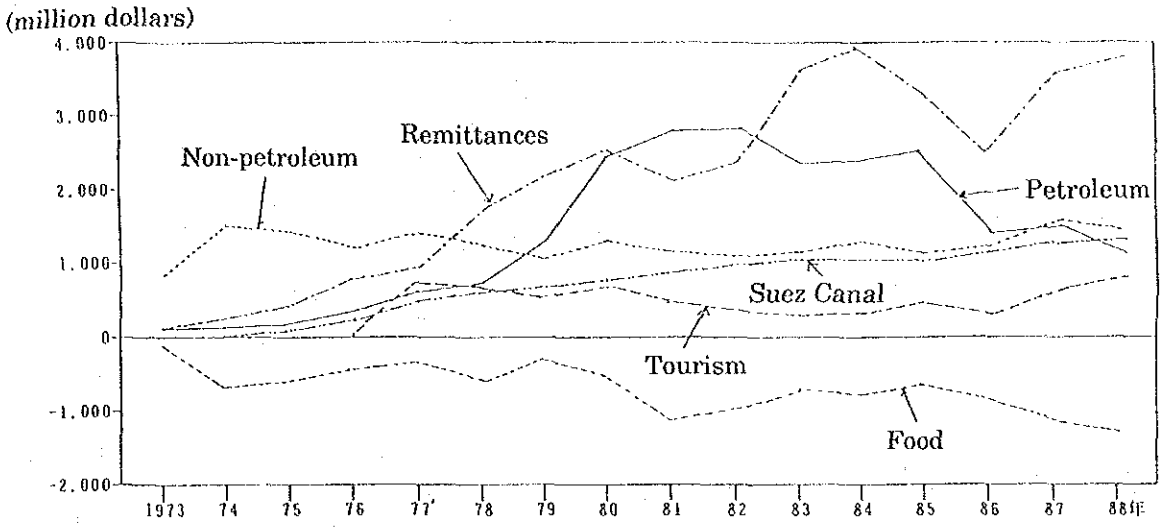
Table 1-1 Structure of Egypt's balance of payments

(Unit: million dollars)

	1973	1974	1976	1978	1980	1982	1984	1986	1988
Trade balance	-429	-1,243	-2,234	-2,803	-2,961	-3,715	-5,385	-4,009	-6,751
Exports	1,000	1,672	1,610	1,939	3,855	4,017	3,864	2,632	2,619
Petroleum	113	128	380	689	2,513	2,892	2,493	1,385	1,144
Non-petroleum	887	1,545	1,230	1,251	1,342	1,125	1,371	1,247	1,476
Imports	-1,429	-2,915	-3,844	-4,743	-6,816	-7,732	-9,250	-6,642	-9,370
(Grain imports)	-145	-663	-470	-600	-544	-1,002	-785	-856	-1,556
Services	-101	-211	-39	-242	-270	-617	-675	-375	1,124
Receipts	304	440	1,221	1,719	2,664	3,203	3,512	3,764	4,982
(Suez canal dues)	0	0	311	513	664	948	950	1,098	1,293
(Tourism)	n. a.	n. a.	n. a.	588	592	346	328	280	886
Payments	-405	-651	-1,260	-1,961	-2,932	-3820	-4,187	-4,138	-3,857
Transfers	756	1,304	1,466	2,121	2,794	2,482	5,005	3,470	4,443
(Workers' remittances)	117	268	755	1,773	2,696	2,438	3,963	2,506	3,770
Current account balance	225	-149	-807	-924	-436	-1,850	-1,056	-915	-1,184
Capital account	386	174	693	878	1,100	1,933	1,827	1,935	1,265
(Direct investment)	0	0	61	318	548	294	729	1,218	1,189
Errors and omissions	-441	-195	-32	-28	35	132	-808	-680	-176
Overall balance	170	-170	-147	-74	699	215	-37	340	-95
Foreign reserves	260	252	240	492	1,046	698	736	829	1,263
Foreign reserves/ monthly imports	2.2	1.0	0.7	1.2	1.8	1.1	1.0	1.5	1.6

Source: IMF, Balance of Payments Statistics.

Figure 1-1 Structure of Egypt's balance of payments



Source: IMF, Balance of Payments Statistics.

1.1.3.2 Egypt's progress toward industrialization

Historically, Egypt's major industries have been textiles, foods, foundries, wood and metal working, and munitions. In 1986, the most important industry measured in terms of output was the food processing industry, the second was the textile industry, the third was the industrial chemicals manufacturing industry (chiefly chemicals at the primary processing stage), and the fourth was the tobacco industry. These are all light industry products, unlike machinery and metals, which ranked fifth.

In 1970, light industry products such as foods, tobacco, textiles, and clothing accounted for 52% of total value-added production. Even in 1988, the rate was 49% — virtually unchanged — indicating that industry has not yet shifted to high-value-added production(8). Since the period from the late 1880s to the beginning of the 1890s when Egypt's attempts to modernize were scuttled by England's protectionist policies, Egypt's textile industry in particular has not been able to advance beyond its role of offering intermediate goods to the advanced industrial countries. As a result, textiles have failed to touch off diversification of Egyptian industries and industrialization through export-substitution.

An understanding of the stages of Egyptian industrialization is essential for further study of its future. We would like now to provide an overview

of how far Egyptian industrialization has progressed by means of four methods.

The industrial sector's share of gross domestic product

Table 1-2 shows the industrial sector's share of gross domestic product from 1960 to 1989. The rate generally fluctuates discontinuously between around 24% to 25% and 33% to 35%. Judging from industrial production viewed relative to GDP, industrialization has not advanced much.

Table 1-3 shows trends in the average annual growth rate for industry in each ten-year period from 1960 to 1989. This table also shows clearly that industry has achieved no significant growth. As Egypt entered the 1980s, its industrial growth rate dropped. Production trends for major manufactured goods are shown in Table 1-4. Though production of foods and chemical products has increased slightly, production of textiles and of machinery and processed metals is flat. This supports the conclusion that the structure of Egypt's major manufacturing industries has not improved, leading to decreased growth rates.

Finally, looking at value-added distribution in manufacturing in Table 1-5 one can see that Egypt's manufacturing industry is largely slanted toward such low-value-added products as tobacco and foods, and that the production of such high-value-added products as machinery and transportation equipment is still at a relatively low level.

Table 1-2 Change in industrial sector's share (%) of gross domestic product

1960	24%	1980	35%
1965	27%	1983	33%
1976	30%	1984	33%
1977	24%	1986	29%
1978	30%	1988	25%
1979	35%	1989	30%

Source: World Bank, World Development Report.

Table 1-3 Growth rates in the industrial sector

(Annual average)

1960 to 1970	5.4%
1970 to 1980	6.8%
1980 to 1989	4.8%

Source: World Bank, World Development Report, 1978 to 1991.

Table 1-4 Production of major manufactured products

Fiscal Year	80/81	81/82	82/83	83/84	84/85	85/86	86/87	87/88	88/89
Spinning and weaving									
Cotton thread (1,000 tons)	239	245	229	239	243	225	251	286	289
Cotton clothing (million meters)	754	996	922	899	740	726	694	n. a.	n. a.
Food									
Sugar (1,000 tons)	591	672	697	644	764	792	841	826	860
Wheat flour (1,000 tons)	3,537	3,487	3,648	3,692	3,579	3,737	3,706	n. a.	n. a.
Chemicals									
Nitrogenous fertilizer (1,000 tons)	3,988	4,820	4,754	4,578	4,038	4,482	4,282	4,341	5,045
Phosphate fertilizer (1,000 tons)	474	512	589	847	930	934	957	1,307	1,516
Machinery/metal processing									
Automobiles	18,818	21,180	25,057	20,290	20,790	18,320	16,114	17,465	8,281
Buses	691	654	788	759	766	867	968	932	1,550
Steel sheets (1,000 tons)	364	314	314	277	272	261	300	n. a.	n. a.

Source: U.N. Industrial Yearbook, Ministry of Industry Data.

Table 1-5 Value-added distribution in industry

	Food, beverages, tabacco	Textiles, clothing	Transportation equipment, machinery	Chemical products	Others
1970	17	35	9	12	27
1986	20	27	13	10	31
1988	29	20	9	17	25

Source: World Bank, World Development Report.

Industrial structure

The Hoffmann ratio is an index used to measure stages of industrialization. It indicates the ratio of the net output (value-added) of the consumer goods industry to that of the investment goods industry. This ratio serves as an index of the relative sizes of the consumer goods industry and the investment goods industry. As economic development progresses, the Hoffmann ratio drops. Following Hoffmann's definition, the consumer goods industry is made up of the food, textiles, leather and furniture industries, and the investment goods industry is made up of four industries: the metals, machinery, transportation equipment, and chemicals industries. Estimates of Egypt's Hoffmann ratio in 1967/68 and 1981 yield values of 1.85 and 0.49, respectively. These ratios, however, are based on the data in Table 1-6, which are vitiated by the statistical classifications, making it difficult to say whether or not these figures are accurate. In any event, although the Hoffmann ratio is not a strict measure of industrial advancement, the data seem to indicate that, in 15 years, industrialization progressed from the second to the third stage, of the four established by Hoffmann (the fourth is the highest stage of industrialization.)

Table 1-6 Value-added production in different industries

(Units: million Egyptian pounds, %)

Industry	Value-added (Fiscal 1967/68)		Value-added (Fiscal 1981)	
	Amount	Share of total	Amount	Share of total
Food/tobacco	76.2	27.5	340	18.3
Textiles/leather	86.2	31.0	475	25.6
Lumber/furniture	1.5	0.5	18	1.0
Paper/printing	11.8	4.4	99	5.4
Chemicals	48.8	17.6	321	17.2
Non-metallic minerals	12.3	4.4	156	8.4
Basic metals	14.8	4.4	119	6.4
Machinery	24.9	9.0	1,327	17.6
Others	0.7	0.2	2	0.1
Total	277.2	100.0	2,857	100.0

Source: Suzuki, Hiroaki (editor). Monkokaihouseisakuka no Ejiputokeizai (Egypt's Economy Under the Open-Door Policy), Institute of Developing Economies.

Structure of exports

Table 1-7 shows Egypt's major export products. Until the mid-1970s, raw cotton exports accounted for over 40% of all exports. However, after Egypt became a net exporter of oil in 1976, oil exports rose sharply, and in 1978, oil became the largest export product. In the first half of the 1980s, the export of oil showed an upward trend, but oil exports gradually decreased thereafter due to the oil glut of 1986, and oil's share of exports dropped to 29% in 1987/88. In its place, spinning and weaving and machinery and processed metal exports, which had dropped off temporarily, showed an upward trend. Exports of these products are believed to have great potential, but thus far there has been no major change in the export pattern, in which primary goods are the main articles.

Table 1-8 compares Egypt's export structure to that of other debt-burdened countries, such as Venezuela and the Philippines. Based on this table, Egypt's ratio of goods and non-factor service exports to GNP (degree of export dependency) is 22.5%, about the same level as countries like Venezuela and the Philippines. However, goods exports account for

only 54.3% of Egypt's total goods and service exports — a notably low figure. And although primary commodities do not account in Egypt's case for as large a share of goods exports as Venezuela's 91% (Venezuela also exports oil), Egypt's primary commodity dependency is nonetheless high at 74%, about the same level as Argentina, whose main exports are agricultural products.

These data therefore show that the structure of Egyptian exports is extremely weak because of its dependence on primary commodities, especially on oil, whose market is extremely unstable.

Table 1-7 Shares of major export products

(%)

	1974	1977	1984/85	1985/86	1987/88
Petroleum	4.0	24.1	55.4	57.7	29.0
Petroleum products	4.4	8.4	15.4		
Raw cotton	47.5	24.6	10.7	8.9	6.6
Rice	2.5	3.0	0.2	–	–
Spinning and weaving	15.7	6.1	2.0	3.9	7.8
Cotton yarn	–	9.5	5.5	7.8	18.4
Chemical products	2.0	13.4	5.4	2.0	3.5
Machines/metals	–	–	–	3.7	11.7
Food	–	–	–	1.4	2.9

Sources: Suzuki, Hiroaki (editor). Monkokaihouseisakuka no Ejiputokeizai (Egypt's Economy Under the Open-Door Policy), Institute of Developing Economies .
Trade Markets Series, No. 232, Egypt, Japan External Trade Organization.

Table 1-8 Structure of balance of payments in heavily indebted countries (1988)

(%)

	Exports of goods and non-factor services as a percentage of GNP	Exports of goods as a percentage of total goods and non-factor service exports	Primary commodities as a percentage of goods exports	Net transfer as a percentage of GNP
Egypt	22.5	54.3	74.0	9.3
Brazil	9.0	94.5	52.0	0.0
Mexico	16.5	71.1	45.0	0.3
The Philippines	24.5	74.6	38.0	1.2
Argentina	10.2	80.8	75.0	0.0
Venezuela	21.8	91.5	91.0	—

Source: World Bank, Trends in Developing Economies, 1990.

Industrial employment structure

Statistical data on companies and business types are needed in order to analyze the structure of the industrial sector. But our analysis is conducted based on the structure of the work force because of insufficient statistics and the difficulty of obtaining them. Table 1-9 shows the percentage of the work force employed by different industries. The percentage of Egyptians employed by manufacturing is gradually decreasing while employment in services is increasing. A close look at the number of those employed in production shows that agricultural employment is experiencing a gradual decrease while employment in the industrial sector remains very low. These data show that the industrial sector's employment absorption capacity is insufficient and that labor is not moving from the agricultural to the industrial sector. In short, Egyptian industry faces major challenges of labor absorption and mobility.

Table 1-9 Changes in the structure of the work force by sector (1959/60 to 1986/87)

(Units: thousand, %)

Industry	1959		1971/72		1982/83		1986/87		Rate of increase between 1977 and 1986/1987
	Number of workers	Share	Number of workers	Share	Number of workers	Share	Number of workers	Share	
Production	4,043.7	67.3	5,582.6	64.4	6,591.9	54.4	6833.3	55.0	16.3
Agriculture	3,245.0	54.0	4,094.7	47.2	4,296.4	35.5	4,542.6	36.6	10.7
Mining/manufacturing	601.8	10.0	1,094.3	12.6	1,514.2	12.5	1,840.0	14.8	47.4
Petroleum					25.2	0.2	33.5	0.3	79.1
Construction	185.0	3.1	359.7	4.2	687.4	5.6	336.4	2.7	-26.4
Electric power	11.9	0.2	33.9	0.4	68.7	0.6	80.8	0.6	68.3
Services	1,962.3	32.7	3,088.9	35.6	5,518.8	45.6	5,584.7	45.0	38.6
Transport and communications	218.6	3.6	388.5	4.5	465.2	3.8	601.7	4.9	35.4
Commerce, finance Insurance, hotels Restaurants	635.7	10.6	828.5	9.6	1,393.8	11.5	1,435.7	11.6	36.7
Housing	16.0	0.3	137.4	1.6	179.9	1.5	225.0	1.8	56.3
Public works	25.2	0.4	37.1	4.2	69.6	0.6	74.3	0.6	36.1
Government services	1,066.8	17.8	1,697.0	19.7	2,436.6	20.1	2,161.4	17.4	
Private services					973.7	8.1	1,086.6	8.7	39.1
Total	6,006.0	100.0	8,671.5	100.0	12,110.7	100.0	12,418.0	100.0	25.4

Source: Suzuki, Hiroaki (editor). Monkokaihouseisakuka no Ejiputokeizai (Egypt's Economy Under the Open-Door Policy), Institute of Developing Economies.

1.1.4 Current status of and issues in Egypt's industrial organization

The previous section gave an overview of Egyptian industry, chiefly in terms of current account balance, and analyzed Egypt's present stage of industrialization on the basis of the industrial sector's share in the gross domestic product and of the export structure. In this section we analyze the industrial organization that is basic to Egypt's achievement of industrialization and fuller employment.

1.1.4.1 Categories of enterprises

Egyptian industry can be classified into the following categories: the

public sector, the private sector, and a military sector that manufactures civilian goods[9]. The private sector can be further subdivided as follows: (i) enterprises established on the basis of Law No. 43, of 1974; (ii) traditional private enterprises employing 10 or more persons; and (iii) small enterprises with fewer than 10 employees[10]. Table 1-10 gives the output in the year 1986/87 of the public, private, and military manufacturing sectors. Total output by these three categories that year was 12,600 million Egyptian pounds, of which the public sector produced a 71% share, the private sector 26%, and the military sector 3%. The private sector accounted for overwhelmingly large shares in light industry, including the manufacture of papyrus and bamboo products (100%), leather goods (97%), wood products (95%), and construction materials (e.g., sun-dried bricks, 60%). All of these are manufactured by small businesses. The public sector dominated the manufacture of chemicals, foods, spinning, and metals and machinery, which requires relatively large fixed assets. The public sector accounted for 92% of production in the chemical industry, 82% in the food industry, 80% in the spinning industry, and 69% in metals and machinery[11].

According to 1983/84 statistics, the public sector had about 180 enterprises, 936 places of business, and 724,000 employees[12]. The private sector comprised 305 companies established on the basis of Law No. 43, employing a total of slightly less than 30,000 employees; 4,729 traditional private enterprises with 10 or more employees per location, employing a total of about 140,000 employees; and 278,000 small businesses with fewer than 10 employees per location, employing a total of about 700,000 employees[13]. Thus the public sector generates the largest share of output, and businesses are polarized between two extremes in terms of the number of employees: the public sector on the one hand and small businesses in the private sector on the other.

These data would lead one to count heavily henceforth on the private sector to play an active role in the rebuilding of Egyptian industry, but it is clear from the large share accounted for by the public sector in industrial production that, for the time being, public sector reforms will have a yet more decisive impact on production. Employment creation will depend to a great extent on the private sector.

Table 1-10 Comparison of production by the public, private, and military manufacturing sectors in 1986/87

(Units: million Egyptian pounds, %)

	Total output	Public sector	Private sector	Military sector
Textiles	2,765 (100)	2,211 (80)	554 (20)	
Foods	4,459 (100)	3,635 (82)	824 (18)	
Metals and machinery	2,487 (100)	1,711 (69)	422 (17)	354 (14)
Chemicals	1,312 (100)	1,220 (92)	60 (5)	32 (3)
Leather goods	778 (100)	26 (3)	752 (97)	
Wood products	535 (100)	26 (5)	509 (95)	
Papyrus and bamboo products	10 (100)		10 (100)	
Construction	252 (100)	100 (40)	152 (60)	
Total	12,598 (100)	8,929 (71)	3,283 (26)	386 (3)

Note: Metals and machinery were summarized together because of discrepancies between the classifications in the original tables.
Source: Compiled from Federation of Egyptian Industries, Yearbook 1984/85 - 1986/87.

1.1.4.2 Reforms and privatization of public enterprises

As mentioned above, the public sector accounts for an extremely high percentage — approximately 70% — of Egyptian industrial production. Reflecting this high percentage, Egypt's public sector currently has a total of 183 public enterprises subordinate to one of six ministries, including the Ministry of Industry and the Ministry of Petroleum and Natural Resource[14]. These public enterprises are under governmental control, and their administrative independence is restricted in many ways. In addition, they are plagued by low productivity, inefficiency, and deficits, attributable principally to the obsolescent manufacturing facilities due to insufficient funding and technology, controls over sales prices of their products, and to over staffing. How public enterprises should be reformed is consequently an extremely important question when considering long-term improvements in Egypt's manufacturing capacity.

The promotion of privatization under the current structural adjustment program is one path to reform. Such a privatization program was

proclaimed in 1990 by President Mubarak. This program includes the sale of joint-venture shares owned by the public sector, the sale of small and medium enterprises belonging to local governments, the sale of assets deemed to be unessential to the activities of public enterprises, and the lease or sale of unutilized production facilities to the private sector. However, the existence of well-developed capital markets is indispensable to promoting privatization, and the lack of these is a problem which hinders privatization programs. In any case, the Egyptian government is gradually clearing the way for privatization to proceed.

Concomitantly with the public enterprise privatization program mentioned above, efforts are being made to reform public enterprises. These reforms are urgent and important because the public sector continues to produce an overwhelmingly large share of output (see Table 1-11) and because a considerable number of public enterprises are expected to remain in existence in the medium to long term, despite the vigorous privatization policy. Improvement of productivity, through reforms of public enterprise, is an extremely important issue in terms of reforming production systems and increasing capacity.

Public enterprises face several problems: management and ownership are not separate; enterprises are subject to governmental intervention at every stage; and the organization of production is nearly identical to that of cartels. These factors are major impediments to improving productivity. In order to cope with such problems, it is extremely important — as aggressively advocated by the structural adjustment program — that public enterprises gain autonomy from the government, that conditions for competition between the public and private sectors be fair, and that they have complete equality with the private sector concerning management autonomy, access to production resources, and freedom to set prices and make marketing decisions. In addition, it is very important to construct a system whereby productive activity will be measured according to the resulting profits[15].

The Egyptian government has decided to reform its public enterprises by implementing certain specific measures that will put them on a sounder financial footing. The government will revise the older system whereby investments in new public enterprises are made through the national investment bank, and will also phase out the practice of compensating

public enterprises for losses. The government has also announced its decision to treat commercial bank loans to public enterprises in exactly the same way as those to private enterprises, except in cases where explicit governmental guarantees have been given.

To remedy another problem besetting public enterprises, namely that of employment, the "Public Investment Law" has been enacted for the purpose of giving legal efficacy to public sector reforms. This law gives managers of public enterprises the right to determine conditions of employment in each enterprise as long as they do not conflict with labor laws, and gives managers the right to remunerate workers in proportion to their contributions to increased productivity. These measures are a step toward a solution of the long unresolved problem of "guaranteed employment" in public enterprises.

Table 1-11 Share of different mining and manufacturing industries in gross production

(Unit: %)

	1973	1981/82	1983/84	1985/86	1987/88
Spinning and textiles	33.0	25.2	22.2	23.9	23.3
Public sector	24.8	18.6	16.5	18.9	15.7
Private sector	8.2	6.6	5.8	5.0	7.7
Foods	34.0	29.1	30.6	29.9	29.7
Public sector	27.0	21.3	21.8	24.2	24.5
Private sector	7.0	7.8	2.9	5.7	5.2
Chemicals	8.4	10.6	10.9	11.5	12.0
Public sector	6.1	8.4	7.9	9.1	9.5
Private sector	2.3	2.2	3.0	2.4	2.5
Machinery and metal processing	14.7	22.0	22.3	21.8	21.4
Public sector	12.3	18.6	13.6	17.9	18.7
Private sector	2.4	3.4	3.7	3.9	2.7
Mining	4.2	2.2	2.2	2.5	2.7
Public sector	3.5	1.0	1.0	1.3	1.1
Private sector	0.7	1.2	1.2	1.2	1.6
Lumber	2.3	4.0	5.0	4.3	5.6
Private sector	2.3	4.0	5.0	4.3	5.6
Leather	3.4	6.9	6.8	6.1	5.2
Private sector	3.4	6.9	6.8	6.1	5.2
Total	100.0	100.0	100.0	100.0	100.0
Public sector	73.7	68.0	65.9	71.7	69.5
Private sector	26.3	32.0	34.1	28.5	30.5

Source: "Tenki wo Mukaeta Ejiputokeizai - Saimumondaino Shitenkara" (Egypt's Economy at a Turning Point: From the viewpoint of the debt problem), Kaigai Toushi Kenkyujo Hou (Report of Overseas Investment Research Institute), Vol. 17, No. 5, Export-Import Bank of Japan.

1.1.4.3 The organization and promotion of small and medium enterprises

Nasser imposed and forcefully promoted industrial policies that placed major emphasis on the heavy and chemical industries and tended to ignore small and medium enterprises. For a long time, nothing was done to help smaller businesses. Recently, however, the Egyptian government decided to carry out the development and promotion of small and medium enterprises as one of the major tasks of its economic policy.

This new policy is rooted in two major objectives: the creation of jobs and the expansion of domestic production. The Egyptian government is aware that small and medium enterprises play an important role in meeting these challenges.

There is no clearly established definition of "small and medium enterprises" in Egypt, partly because so many different government ministries and agencies have jurisdiction over them and because each adopts its own definition according to its own classification. In general, however, they may be classified in the following three categories: the first consists of domestic cottage industries which have from 1 to 4 employees and in which family members utilize simple machinery at home to make textiles, furniture parts, processed foods or the like; the Social Security Agency has jurisdiction over these. The second category consists of small-scale handicraft industries having from 5 to 24 employees, who utilize simple machinery in small work places to manufacture goods or perform services; the Handicrafts Agency has jurisdiction over these. The third category consists of small or medium enterprises with from 25 to 99 employees, capitalized at less than 1.1 million Egyptian pounds, which possess some management know-how and technology and can deliver more or less standardized products to large enterprises or market them directly to consumers; the Ministry of Industry has jurisdiction over these[16].

The Egyptian government is planning and implementing a variety of steps to foster smaller enterprises. For example, domestic cottage industries will be given loans of up to 1,000 Egyptian pounds at 2% interest, and handicraft industries and small or medium entrepreneurs will be provided with land (chiefly in industrial complexes), funding, and vocational training. These aid measures generally fail to achieve their primary

objectives, however, because there is no coordination among the government agencies that implement them.

Promotion of small and medium enterprises in Egypt today faces a number of obstacles. The five most serious are institutional, manpower, technological, financing, and marketing problems. A major institutional problem is that privately owned small or medium enterprises (i.e., the majority of smaller enterprises) are subject to serious discrimination in the procurement of raw materials and in their pricing. Another is that the prices of their products are controlled by the government. Yet another is that corporate taxes are extraordinarily high at 40%. Manpower problems include the lack of skilled workers. Technological problems include obsolescence of facilities and technologies and lack of knowledge about how to introduce new technologies. As for financing problems, it has been pointed out that lenders demand exorbitant collateral and are reluctant to lend to small and medium enterprises because of the management costs and the high risks. Marketing, an important step in promoting smaller businesses, poses difficult problems as well: few small and medium enterprises have sufficient funds or knowledge to engage in advertising or sales promotion; they merely wait for customers to come to them.

The promotion of small and medium enterprises is regarded as a key to economic development in Egypt and other developing countries. The roles to be played by smaller businesses are three: absorption of manpower, import-substitution, and export promotion. In their manpower-absorption and import-substitution roles, their objective is to manufacture products to meet demand on domestic (chiefly rural) markets, where high product quality is not a prime concern. Labor-intensive small and medium enterprises play an important role in this regard because of their ability to absorb manpower. But when it comes to export promotion, the government's objectives are to develop enterprises which stress efficiency, introduce high technology, and place their main emphasis on improvement of product quality.

In the light of the realities of small and medium businesses in Egypt, it is clear that the government is faced with a host of problems stemming from its never having implemented any systematic policies for their development.

Their contribution to the absorption of manpower is quite inadequate; their contribution to export promotion is likewise: they clearly lag far behind in such areas as the introduction of advanced technology, quality control, and organizational reforms. In this sense, small and medium enterprises in the industrial sector face extremely serious challenges.

1.1.4.4 The organization of private enterprises

Lack of information makes it extremely difficult to discover in detail how Egyptian private enterprises are actually organized. Here we examine a few facts about their structure by summarizing what fragmentary pieces of information we have about some of the business federations(17).

a. Federation of Egyptian Industries

About 12,000 companies (of which 127 are big) currently belong to the Federation of Egyptian Industries, whose purpose is to protect the interests of Egyptian industry. Until the nationalizations of 1961, the Federation was an organization of private industry, but now it chiefly represents the interests of public enterprises. With the initiation of the economic open-door policy during the 1970s, however, private-sector business managers also began to join.

b Egyptian Businessmen's Association

This Association is an organization to which business people from various sectors of Egyptian industry belong as individuals. It was established in 1978 in order to support the economic open-door policy. It advocates a market-economy orientation and opposes government interference in the private sector.

c. Egyptian Banks' Association

All Egyptian banks belong to this Association, a coordinating agency between the Central Bank and commercial banks. Although it seldom voices its opinions publicly, the Central Bank acts for it as liaison in negotiations with the IMF on matters such as structural adjustment, and it is believed that the Federation's views play an influential role.

The three federations listed above are likely to exert a major influence on the private sector's future development.

1.1.4.5 Related laws

An overview follows of the types of laws on which the organization of Egyptian manufacturing depends. We shall consider legislation in three areas: corporate law, investment law, and business law[18].

Laws related to forms of business enterprises: Corporate law

Egypt's commercial code was formulated in 1876, modeled on the Napoleonic Code of Commerce (1807) and French Corporate Law (1867). The current Company Law is Law No. 26 of 1954, which was amended in October 1981 (Law No. 159 of 1981). The law went into effect in June 1982 when its enforcement rules were promulgated. Current corporate law defines five types of companies: unlimited partnerships, limited partnerships, joint-stock limited partnerships (a heavily capitalized form in which the capital is divided into stock shares and each partner has limited liability), joint-stock companies, and private companies with limited responsibility.

Provisions for the establishment of a joint-stock company are as follows. In a joint-stock company, two or more promoters must draw up articles of incorporation and obtain a permit for establishment. The minimum amount of capital is set at 20,000 Egyptian pounds. Upon establishment, the total number of shares corresponding to the amount of capital must be issued and subscribed to. Payments are made in installments, and the company comes into existence when payments for one-fourth or more of the face amount have been made. Because common stock shares are paid in installments, only par-value stocks exist, and the issuance of non-par stocks is not authorized. Shares owned by the promoters cannot be transferred until two years after establishment, or until 5% or more of the profits have been set aside as a legal reserve and 10% or more have been distributed as dividends. The general meeting of shareholders is specified as the highest decision-making organ for the company's business management; the board of directors is specified as the decision-making

organ for carrying out business; and the company auditors are specified as the auditing agency. The board of directors must consist of three or more directors, 40% of whom must be Egyptians. As for the auditing agency, at least one of the auditors is to be selected by the general meeting; auditors must be qualified certified public accountants; and at least one auditor must be an Egyptian.

Investment legislation

Law No. 43

This law was passed in 1974. Following the successful examples of South Korea and Taiwan, it establishes economic "Free Zones," which are exempt from taxes. To promote the establishment of joint ventures with foreign capital, it allows them to operate in most sectors of Egyptian industry. Once new enterprises are established, they are exempt from taxes for a period of from 5 to 8 years, or for a period of from 10 to 15 years in enterprises which are undergoing restructuring. Such enterprises cannot be nationalized or confiscated, and duties are not collectible on the import of facilities or raw materials they need to carry out production activities. The law also permits an enterprise to remit profits back to the country of origin freely within the limits of the foreign currencies it possesses.

A provision of particular importance concerning the establishment of joint ventures is that 49% of the shares of a public enterprise may be sold. The purpose of this provision is to promote the establishment of joint ventures by public enterprises and foreign capital. Even joint ventures in which the government owns a majority of the shares are regarded as private enterprises and are exempt from provisions of dirigiste policies to which public enterprises are subject, such as the Labor Law, participation of workers in managers' meetings, and distribution of profits.

Law No. 32

This law, a revised version of Law No. 43, was established in 1977 as a means of clarifying the status of foreign capital. It divides investments

of foreign capital into internal investments and investments in Free Zones, with separate provisions for each category. Internal investments are investments in regions of Egypt other than Free Zones. Products may be sold inside Egypt or exported, but it is required that these investments take the form of equity participation in Egyptian public or private capital. In investments in Free Zones, 100% financing by foreign capital is allowed. Such enterprises are not bound by the state's economic planning and are exempt from the restrictions of many domestic laws, but the sale of their products is limited to foreign countries.

Internal investments require the forming of joint ventures with Egyptian capital, but, except in banking and construction, no provisions specify the ratio of foreign to Egyptian capital. Foreign investment in banks engaged in transactions in Egyptian currency is restricted to joint ventures in which Egyptian national capital makes up 51% or more of the capital. In the construction business, foreign investment is restricted to joint-stock companies in which Egyptian capital makes up 50% or more of the capital.

Internal investment is given the following incentives: (i) preferential tax treatment (for the first five years after start-up, corporations are exempt from taxes on profits, stamp duty on stocks, and taxes on profits from investment of assets); (ii) exemption from import duties on machinery and facilities; (iii) exemption from taxes on loan interest; (iv) authorization of overseas remittance of foreign employees' salaries, up to the equivalent of 50% of their total income. The obligation to employ and appoint Egyptians is imposed in return for these incentives: at least 75% of employees must be Egyptian, and 60% or more of the total salaries paid to all employees must be paid to Egyptians.

In the case of Free Zones, the Investment Authority designates specific areas for investment and attempts to attract foreign capital to them. Investments for processing on commission and processing for preservation are both allowed. Among other types, operations may include the following: (i) the storage of cargo in transit, of duty-free cargo scheduled for export, and of foreign cargo exempted from import duty; (ii) the sorting, combining, mixing, and repacking of goods for the purpose of business transactions; and (iii) the fabrication, assembly, and processing of products. Projects

established in Free Zones are required to provide training opportunities and to formulate training plans for the training of Egyptian personnel as skilled workers. In addition, the rules set forth general principles concerning the percentage of Egyptian employees to be hired, the establishment of minimum wages, and employees' welfare, resignation, dismissal, and mandatory retirement age.

The following privileges are authorized for projects established in Free Zones: (i) exemption from domestic taxes; (ii) exemption from customs duties on exported and imported goods; (iii) exemption from customs duties and other imports on machinery, facilities, and apparatus they require; (iv) reduction of customs duties in accordance with the percentage of Egyptian-manufactured raw materials used in them, if goods made of Egyptian-manufactured raw materials are transported from the Free Zone area for the sake of consumption in Egypt; and (v) reduction of general income tax on foreign employees' incomes and exemption of their incomes from the provisions of the Foreign Exchange Control Law.

Law No. 230

Law No. 43 and its revision, Law No. 32, were enacted and put into effect to improve the investment environment. In July 1989, Law No. 230, a newer investment law, was enacted to further overhaul the older laws. It aims at strengthening the authority of the Investment Authority and at simplifying investment procedures. The following are the main changes with respect to Law No. 32: (i) tax exemption periods have been extended and the tax deductions allowed after the expiry of exemption have been increased; (ii) price controls on products have been abolished; (iii) changes have been made in the sectors in which foreign investment is allowed (housing sector investment is allowed, foreign investment in finance and consulting disallowed); (iv) regulations dealing with overseas remittance of profits have been relaxed; (v) capitalization of debt has been authorized, with some limitations; (vi) incentives are provided to encourage reinvestment; and (viii) the import of second-hand machinery and facilities has been deregulated.