

NO.

JAPAN INTERNATIONAL COOPERATION AGENCY (JICA)  
SUEZ CANAL AUTHORITY (SCA)

**ANNEX I BACKGROUND SITUATION OF THE ARAB REPUBLIC OF EGYPT**  
**FINAL**

**THE STUDY ON  
THE EFFECTIVE MANAGEMENT SYSTEM  
OF THE SUEZ CANAL  
IN THE ARAB REPUBLIC  
OF EGYPT**

AUGUST 2001

THE OVERSEAS COASTAL AREA DEVELOPMENT INSTITUTE OF JAPAN (OCDI)  
MITSUBISHI RESEARCH INSTITUTE, INC. (MRI)

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The following foreign exchange rates are applied in this study:

US\$1.00=LE(Egyptian Pound)3.50=JP¥109.00

US\$1.30= SDR1.00

as of August, 2000

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## PREFACE

In response to a request from the Government of the Arab Republic of Egypt, the Government of Japan decided to conduct a study on the Effective Management System of the Suez Canal in the Arab Republic of Egypt and entrusted the study to the Japan International Cooperation Agency (JICA).

JICA dispatched a study team to Egypt three times between August 2000 and June 2001, which was headed by Mr. Hidehiko Kuroda and was composed of members from the Overseas Coastal Area Development Institute of Japan (OCDI) and Mitsubishi Research Institute, Inc. (MRI).

The team held discussions with the officials concerned of the Government of the Arab Republic of Egypt and Suez Canal Authority (SCA) and conducted field surveys at the study area. Upon returning to Japan, the study team conducted further studies and prepared this final report.

I hope that this report will contribute to this project and to the enhancement of friendly relationship between our two countries.

Finally, I wish to express my sincere appreciation to the officials concerned of SCA and other authorities concerned for their close cooperation extended to the study team.

August 2001



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Kunihiko Saito  
President  
Japan International Cooperation Agency

## LETTER OF TRANSMITTAL

August 2001

Mr. Kunihiko Saito  
President  
Japan International Cooperation Agency

Dear Mr. Saito:

It is my great pleasure to submit herewith the Final Report of the Study on the Effective Management System of the Suez Canal in the Arab Republic of Egypt.

The study team of the Overseas Coastal Area Development Institute of Japan (OCDI) and Mitsubishi Research Institute, Inc. (MRI) conducted surveys in Egypt over the period between August 2000 and June 2001 as per the contract with the Japan International Cooperation Agency.

The study team compiled this report, which proposes the Effective Management System of the Suez Canal including the transit forecast model and the tariff setting system, through close consultations with officials of the Suez Canal Authority (SCA).

On behalf of the study team, I would like to express my heartfelt appreciation to SCA and other authorities concerned of the Government of the Arab Republic of Egypt for their diligent cooperation and assistance and for the heartfelt hospitality, which they extended to the study team.

I am also greatly indebted to your Agency, the Ministry of Foreign Affairs, the Ministry of Land, Infrastructure and Transport and the Embassy of Japan in Egypt for valuable suggestions and assistance through this study.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Hidehiko Kuroda', is written over a horizontal line. The signature is fluid and cursive.

Hidehiko Kuroda  
Team Leader

The Study on the Effective Management System  
of the Suez Canal in the Arab Republic of Egypt

## ABBREVIATION LIST

APA	Alexandria Port Authority
BAF	Banker Adjusting Factor
BIMCO	Baltic and International Maritime Council
BOT	Build, Operate and Transfer
C/B	Charter Base
CBE	Central Bank of Egypt
CEU	Car Equivalent Unit
CFS	Container Freight Station
CHS	Container Handling Surcharge
CIF	Cost, Insurance and Freight
CRF	Capital Recovery Factor
CY	Container Yard
DEM/DES	Demurrage/Dispatch
DO	Diesel Oil
DPA	Damietta Port Authority
DST	Double Stack Train
DWT	Dead Weight Tonnage
ECSA	European Community Ship-owners' Association
EDI	Electronic Data Interchange
EMDB	Egyptian Maritime Data Bank
ENR	Egyptian National Railway
ETA	Estimated Time of Arrival
FAK	Freight All Kinds
FCL	Full Container Load Cargo
FIRR	Financial Internal Rate of Return
FO	Fuel Oil
FOB	Free on Board
GDP	Gross Domestic Product
GARE	Government of Arab Republic of Egypt
GOJ	Government of Japan
GT	Gross Tonnage
H/B	Hire Base
ICS	International Chamber of Shipping
INSROP	International Northern Sea Route Program
INTERCARGO	International Association of Dry Cargo Ship-owners
INTERTANKO	International Association of Independent Tanker Owners
JAMRI	Japan Maritime Research Institute
JICA	Japan International Cooperation Agency
JP¥	Japanese Yen
LB	Land Bridge
LCL	Less than Container Load Cargo
LE	Egyptian Pound
LNG	Liquefied Natural Gas

LOA	Length Overall
LOOP	Louisiana Offshore Oil Port
LPG	Liquefied Petroleum Gas
LUP	Laying-Up Point
MOMT	Ministry of Maritime Transport
MRI	Mitsubishi Research Institute, Inc.
MSL	Maersk-Sealand
MT	Metric Ton
N/P	Net Proceeds
NPV	Net Present Value
NWA	New World Alliance
OCDI	Overseas Coastal Area Development Institute of Japan
O-D	Origin and Destination
OSRA	Ocean Shipping Reform Act
PAE	Petroleum Authority of Egypt
PCC	Pure Car Carrier
P/L	Profit/Loss
PSPA	Port Said Port Authority
QGC	Quay-side Gantry Crane
RGT	Rubber-Tired Gantry
S/C	Service Contract
SCA	Suez Canal Authority
SCCT	Suez Canal Container Terminal
SCGT	Suez Canal Gross Tonnage
SCNT	Suez Canal Net Tonnage
SCVTMS	The Suez Canal Vessel Traffic Management System
SDR	Special Drawing Right
SSA	Stevedoring Services of America
SUMED	Arab Petroleum Pipelines Co.
S/W	Scope of Work
TEU	Twenty-foot Equivalent Unit
ULCC	Ultra Large Crude Carrier
US\$	US Dollar
VLCC	Very Large Crude Carrier
WSF	World Scale Flat
WSR	World Scale Rate

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## Chapter 1 Present Situation of the Egyptian Socio-Economy

### 1.1 Population and Economy

#### 1.1.1 Population

Egypt is the most populous country in the Arab world and has the second largest population in Africa after Nigeria. Population was 30.08 million in 1966, 36.63 million in 1976 and 48.25 million in 1986. The 1996 Census indicated that, the total population inside Egypt reached 59.31 million. Migration has traditionally been negligible in Egypt. Egyptians are living abroad 2.18 million, according to the 1996 population Census. The average annual growth rate decreased from 2.8% for the period 1976-1986 to 2.1% for the period 1986-1996 (see Table 1.1.1).

According to the Mid-year Census, population was 54.44 million in 1991 and 61.40 million in 1997. The average annual growth rate is 2.0% for the period 1991-1997 (see Table 1.1.2). There are four urban governorates, nine lower Egypt governorates, nine upper Egypt governorates and five frontier governorates in Egypt. Among urban governorates, Cairo has a population of 6.8 million accounting for 11.5% of the total population, followed by Alexandria (3.3 million), Port Said (0.47 million), and Suez (0.42 million) in 1996 (see Table 1.1.3). Nearly 39.8% of the total urban population lived in two of the world's oldest cities, Cairo and Alexandria.

The problems associated with the rapid rate of population growth are complicated, namely the extreme scarcity of cultivated land relative to people. Over 97% of the Egyptian population (59.3million) is crowded in about 4% (386,000km<sup>2</sup>) of the total area of more than one million square kilometers.

Table 1.1.1 Population of Egypt by Census Years

(Unit: thousand)

Item / Year	1960	1966	1976	1986	1996
Total Population (1)	26,085	30,076	36,626	48,254	59,313
Average annual growth rate (%)	2.5	2.4	2.0	2.8	2.1

Note) Excluding Egyptian abroad.

Source) Statistical year book 1991-1996, June 1997, The Central Agency for Public Mobilization and Statistics

Table 1.1.2 Population of Egypt by Mid-year Census

(Unit: thousand)

Item / Year	1991	1992	1993	1994	1995	1996	1997
Total Population	54,437	55,893	56,434	57,556	58,978	60,236	61,404
Annual growth rate (%)	2.9	2.7	1.0	2.0	2.5	2.1	1.9
Average annual growth rate for the 1991-1997 (%)				2.0			

Source) The Central Agency for Public Mobilization and Statistics

Table 1.1.3 Number and Percent of Population, by Governorate and Urban/Rural area  
(The Final Results of The 1996 Census)

GOVERNORATE	TOTAL		URBAN		RURAL	
	No	Percent	No	Percent	No	Percent
TOTAL	61,492,914					
Total Egyptian Abroad	2,180,000					
Total Population	59,312,914	100.0	25,286,335	100.0	34,026,579	100.0
Urban Gov.	11,029,930	18.6	11,029,930	43.6		
Cairo	6,800,992	11.5	6,800,992	26.9		
Alexandria	3,339,076	5.6	3,339,076	13.2		
Port-Said	472,335	0.8	472,335	1.9		
Suez	417,527	0.7	417,527	1.7		
Lower Egypt Gov.	25,819,021	43.5	7,116,929	28.1	18,702,092	55.0
Demietta	913,555	1.5	250,578	1.0	662,977	1.9
Dekahlia	4,223,919	7.1	1,174,466	4.6	3,049,453	9.0
Sharkia	4,281,068	7.2	964,731	3.8	3,316,337	9.7
Kailiyoubia	3,300,847	5.6	1,340,418	5.3	1,960,429	5.8
Kafr-El-Sheikh	2,223,659	3.7	509,790	2.0	1,713,869	5.0
Gharbia	3,406,020	5.7	1,058,615	4.2	2,347,405	6.9
Menofia	2,760,431	4.7	548,013	2.2	2,212,418	6.5
Behera	3,994,297	6.7	910,276	3.6	3,084,021	9.1
Ismailia	714,828	1.2	359,645	1.4	355,183	1.0
Upper Egypt Gov.	21,645,887	36.5	6,659,260	26.3	14,986,627	44.0
Guiza	4,784,099	8.1	2,589,807	10.2	2,194,292	6.4
Bani-Suef	1,859,214	3.1	437,671	1.7	1,421,543	4.2
Fayoum	1,989,774	3.4	446,773	1.8	1,543,001	4.5
Menia	3,310,129	5.6	643,059	2.5	2,667,070	7.8
Asyout	2,802,334	4.7	764,206	3.0	2,038,128	6.0
Suhag	3,123,115	5.3	678,657	2.7	2,444,458	7.2
Qena	2,442,016	4.1	517,649	2.0	1,924,367	5.7
Aswan	974,068	1.6	415,130	1.6	558,938	1.6
Luxur	361,138	0.6	166,308	0.7	194,830	0.6
Frontier Gov.	818,076	1.4	480,216	1.9	337,860	1.0
Red Sea	157,315	0.3	117,499	0.5	39,816	0.1
El-Wadi-El-Gidid	141,774	0.2	68,408	0.3	73,366	0.2
Matrouh	212,001	0.4	117,762	0.5	94,239	0.3
North Sinai	252,160	0.4	149,147	0.6	103,013	0.3
South Sinai	54,826	0.1	27,400	0.1	27,426	0.1

The first population policy was adopted during the 1970's and was accompanied by increased governmental activities in family planning. A second policy was adopted in 1980 emphasizing community-based in relation to family planning. In 1994, a new population strategy was adopted, building on the outcome of the Cairo Population Conference and emphasizing a reproductive health approach. The institutional environment in the population sector in Egypt is well developed. However, the effectiveness of the different institutions varies. A consistent constraint has been in the successive institutions responsible for sectoral and population policy and planning.

## 1.1.2 GDP and Industrial Structure

### (1) GDP

The Egyptian GDP amounted to 161.5 billion Egyptian Pound (LE) in the fiscal year of 1996/1997 at constant price of the year 1991/1992. The GDP at factor cost had increased at an average rate of 4.7% per annum, and GDP at market prices was at 4.9% per annum during 1992/1993-1996/1997 (see Table 1.1.4).

The Egyptian economy expanded at relatively high rate of around 5% per annum for the period 1989-1990, stagnated with a growth rate of around 2.7% per annum and then resumed a high expansion with the growth rate of around 5% per annum (see Table 1.1.4 and Table 1.1.5).

Table 1.1.4 GDP at Factor Cost and Annual Growth Rates (1991/1992 price)

(Unit: LE billion)

	1992/93	1993/94	1994/95	1995/96	1996/97
GDP at factor cost	134.3	139.6	146.1	153.4	161.5
Annual growth rate (%)	2.5	3.9	4.7	5.0	5.3
GDP at market price	143.11	148.76	155.54	163.54	173.16
Annual growth rate	2.9	3.9	4.6	5.1	5.9

Note) The GDP in 1997/98 and 1998/99 are expressed at 1996/97 prices, which put an inconsistency in the time series GDP.

Source) Annual Report 1996/97, Central Bank of Egypt

Table 1.1.5 GDP at Factor Cost and Annual Growth Rate of Egypt (1988 price)

(Unit: LE billion)

Item / Year	1988	1989	1990	1991	1992	1993	1994	1995	1996
GDP at factor cost	51,807	54,161	56,692	58,689	59,826	61,333	63,689	66,623	69,891
Annual growth rate (%)	5.0	4.5	4.7	3.5	1.9	2.5	3.8	4.6	4.9

Source) World Development Indicator 1998, the World Bank

Per capita GDP at 1991/92 prices was 2,467 LE in 1992, 2,681 LE in 1996.

The per capita GDP whose concept is almost same as the per capita real income, and has been improved at annual average rate of 2.1% since 1992.

## (2) GDP by sector and Industrial structure

The GDP share of the commodity sector is 49.8% in 1998/99, which has been unchanged since 1991/92. The GDP share of the Production Service sector is 32.4% in 1998/99, by 0.9% points decrease from 1991/92, while the GDP share of the social service sector 17.9% by 1.1% points increase. Accordingly, it can be pointed out that the Egyptian industrial structure has not changed so much since 1991/92.

However, it must be pointed out that the GDP shares of Industry and Mining and trade have increased a little rapidly, compared with the others (see Table 1.1.6 and Table 1.1.7).

Table 1.1.6 Composition of GDP by Economic Sector at Factor Cost (at 1991/92 prices)  
(Unit: LE billion)

Economic Sector	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97
<u>Commodity Sector</u>	<u>65.373</u>	<u>66.886</u>	<u>70.173</u>	<u>73.203</u>	<u>76.361</u>	<u>79.589</u>
Agriculture	21.680	22.220	23.072	23.741	24.470	25.310
Industry and Mining	21.730	22.360	23.295	25.087	26.970	29.228
Petroleum and Oil Products	13.008	13.210	14.345	14.365	14.365	13.650
Electricity	2.220	2.296	2.382	2.525	2.658	2.830
Construction and Building	6.735	6.800	7.079	7.485	7.898	8.571
<u>Productive Services Sector</u>	<u>46.606</u>	<u>44.494</u>	<u>45.592</u>	<u>47.878</u>	<u>50.674</u>	<u>53.923</u>
Transportation and Communications	8.710	14.860	9.334	9.906	10.495	11.380
Suez Canal	6.125		5.778	5.516	5.621	5.387
Trade	21.730	27.109	23.260	24.619	25.936	27.631
Finance	4.545		5.080	5.435	5.909	6.454
Insurance	0.076		0.085	0.092	0.104	0.114
Restaurants and Hotels	2.420	2.525	2.055	2.310	2.609	2.957
<u>Social Service Sector</u>	<u>22.078</u>	<u>22.955</u>	<u>23.857</u>	<u>25.068</u>	<u>26.334</u>	<u>27.976</u>
Real Estate Ownership	2.350	2.878	2.568	2.712	2.819	3.008
Public Utilities	0.401		0.459	0.495	0.532	0.575
Personal Services	9.895	10.245	10.613	11.194	11.833	12.622
Government Services	9.345	9.832	10.120	10.565	11.039	11.653
Social Insurance	0.087		0.097	0.102	0.111	0.118
<u>Total GDP</u>	<u>131.057</u>	<u>134.335</u>	<u>139.622</u>	<u>146.149</u>	<u>153.369</u>	<u>161.488</u>

Source) Central Bank of Egypt



Table 1.1.7 Industrial Structure

Economic Sector	Composition ratios %			A.A.C.R *1
	1991/92*3	1995/96*3	1998/99*2	1991/92-1995/96
Commodity Sector	49.9	49.8	49.8	4.0
Agriculture	16.5	16.0	17.0	3.1
Industry and Mining	16.6	17.6	19.1	6.1
Petroleum and Oil Products	9.9	9.4	6.0	1.0
Electricity	1.7	1.7	1.8	5.0
Construction and Building	5.1	5.1	5.8	4.9
Productive Services Sector	33.3	33.0	32.4	4.3
Transportation and Communications	6.6	6.8	6.8	5.5
Suez Canal	4.7	3.7	2.4	2.5
Trade	16.6	16.9	17.4	4.9
Finance	3.5	3.9	4.3	7.3
Insurance	-	0.1	0.1	8.4
Restaurants and Hotels	1.8	1.7	1.4	4.1
Social Service Sector	16.8	17.2	17.9	4.8
Real Estate Ownership	1.8	1.8	1.8	5.1
Public Utilities	0.3	0.3	0.4	7.5
Personal Services	7.6	7.7	7.8	5.0
Government Services	7.1	7.2	7.8	4.5
Social Insurance	-	0.1	0.1	6.3
Total GDP	100.0	100.0	100.0	4.3

Note) \* 1: • Average annual changing rate (%/annum)

• the changing rates for period 1991/92-1998/99 cannot be calculated because the sectoral GDPs in 1997/98 and 1998/99 are expressed at the 1996/97 prices.

\* 2: calculation using the sectoral GDPs entered in the Statistical Year Book, 1993-1999, June 2000

\* 3: Source) Central Bank of Egypt

### 1.1.3 Production by main sector

#### (1) Agriculture production

The agriculture sector is the main source for achieving food sufficiency. It also plays a major role in the national economy. It produces around 16% of the national GDP, the third biggest sector following mining sector and trade sector. Moreover, it earns important foreign currency and absorbs great portion of the workforces.

Production of the cereals (Wheat, Maize and Rice) had increased at an average rate of 4.7% per annum for period 1991-1996, while the production of the vegetables (Potato, Onion, Tomato, Beet and Vegetables) had been 6.5% per annum. If the production statistics reflects the actual situation of the agriculture sector, it should say that the increasing rates are surprising ones and the Egyptian agriculture sector have been in an expansion stage (see Table 1.1.8).

Table 1.1.8 Agricultural Production by Type of Major Crop.

Type of Crop	(unit: thousand tons)									
	1991	1992	1993	1994	1995	1996	1997	1998	1999	CR*1
Wheat	4,482	4,618	4,833	4,437	5,723	5,735	5,850	6,094	6,346	4.4
Maize	5,122	5,070	5,039	5,550	5,178	5,825	5,147	5,430	5,908	1.8
Rice	3,448	3,909	4,161	4,583	4,764	4,900				
Potato	1,786	1,619	995	1,325	1,765	1,939	1,803	1,357	1,137	-5.5
Onion	579	606	742	481	692	811	726	904	1,444	12.1
Tomato	3,806	4,697	4,768	4,707	5,087	6,021	5,883	6,099	5,943	5.7
Sugar-cane	11,095	11,624	11,708	12,412	13,822	14,105				
Beet	1,106	744	795	825	920	842	1,143	1,951	2,650	11.5
Orange	1,694	1,771	1,324	1,513	1,555	NA				
Vegetables	8,378	8,960	9,640	9,955	10,567	11,858				

Note) \* 1: Average annual changing rate (%/annum) during 1991-1999.

Source) Statistical Year Book, June 2000, Central Agency for Public Mobilization and Statistics.

Egyptian agriculture, due to intensive irrigation, is considered to be highly productive and remains one of the most important economic sectors. In addition to the traditional crops, Egypt has enormous potential as a source of high value crops for the entire Mediterranean basin where horticultural and flower crops could be delivered fresh to nearby markets. This is possible because of all-year round irrigation from the Nile, a very conducive climate and the country's location at the crossroads of Africa, Europe and the Middle East. A number of selected investment opportunities also exist in the area of land reclamation, and agriculture related services, such as advanced screening, packing and storage techniques. There is also considerable potential for fish production and local processing of fish feeds. Agriculture is the sector where economic liberalization has been earliest and strongest. With the introduction of the reform measures since the mid 1980s, a number of structural problems have been partially or totally overcome, with resulting productivity gains. With price decontrols and removal of other non-price barriers, as well as improved cropping patterns

and other technological packages, agriculture can be expected to contribute significantly to export diversification.

## (2) Industrial production

According to the production statistics by products tabulated in Table 1.1.9, only refined sugar, molasses, preserved vegetables, cotton textiles and car have increased since 1991/92. The table covers a relative small number of the products produced in Egypt. However, it cannot help saying that the trend shown in the table expresses a reverse situation of the movement of the industrial sector, which was shown in the Table 1.1.6 and Table 1.1.7.

In recent years, the growth of industry has been sluggish owing to heavy indebtedness by the public sector and generally weak demand in the economy. The government has now targeted industry as growth area, in particular, is seeking to promote industrial exports. Industry has a strong potential in employment creation and in exporting to neighboring and West European countries, especially in textiles and possibly food processing products. The informal sector, in particular, is quite robust in creating employment opportunities at low cost, and it continues to absorb the largest share to the labor force. The presence of a relatively cheap and skilled labor should help in realizing some potential in this area. Major impediments here include laws that hinder labor mobility and discourage labor-intensive techniques, and creative credit extension methods.

Table 1.1.9 Production by Products

(Unit: thousand tons, otherwise specified)

	1991/92	1992/93	1993/94	1994/95	1994/95	1995/96	1996/97	1998/99	CR*1
<b>Food industries</b>									
Refined Sugar	419	455	481	661	745	823	982	706	7.7
Molasses	219	200	214	282	259	243	255	240	1.3
Cotton Seed Oil	312	330	318	306	267	288	306	290	-1.0
Preserved Vegetables	10	11	12	11	17	13	15	14	4.9
<b>Construction Material</b>									
Cement	12,399	12,937	13,544	14,237	15,569	15,569	15,480	11,933	-3.8
Ceramics (LE thousand)		7,800	7,850	7,979	5,740	7,000	7,350	7,718	
Safty Glass (ton)		2,552	2,748	2,726	1,982	1,982	NA	NA	
<b>Spinning and Weaving</b>									
Cotton Textiles (LE million)	1,504	1,704	1,737	1,670	1,561	1,474	1,559	1,524	0.2
Wool Yarn	20	19	20	19	16	14	12	12	-7.0
Wool Textiles (LE million)	23	17	14	14	12	8	8	7	-15.6
<b>Metal industries</b>									
Steel Sheet	390	350	392	450	280	454	663	374	-0.6
Reinforced Steel	270	339	362	329	266	242	241	184	-5.3
Car (cars)	6,831	4,444	6,557	8,211	13,878	12,930	13,337	11,629	7.9

Note) \*1: Average Annual Changing Rate (%/annum), during 1991/92-1998/99

Source) Statistical Year Book, June 2000, Central Agency for Public Mobilization and statistics

### (3) Energy and Mining

#### 1) Electricity

Electricity consumption represents 2% of the GDP and during the past 10 years, the power distribution has been extended to all parts of Egypt. Almost the whole population has access to electricity. The demand for electricity has been increasing steadily at 6% per year during the past decade, and is forecast to continue growing at the same rate up to the year 2005 to reach 105 billion KWH from the present demand of 46 billion KWH. In order to meet the rising demand for electricity, which currently stands at 13,468 MW, another 3,250MW is scheduled to be in service by the year 2002 at a projected cost of US\$2.1 billion. This increased demand will be generated from natural gas, liquid fuels hydro-sources, as well as solar and wind-power sources. To complement the government's efforts to meet the increasing demand of electricity, the private sector has been invited to participate in Build-Operate-Transfer power stations for the first time in Egypt's recent history. Two Build-Operate-Transfer (BOT) private sector power stations are scheduled to come on stream in 2001. Two more plants at 680MW pumped storage and 300MW wind power will come on stream in 2003 and 2004 respectively. Another four combined cycle and four dual firing steam power stations are expected to come on steam by 2007, also on a BOT basis.

#### 2) Petroleum and Gas

Petroleum and refined products represent 9.4% of GDP and are an important source of foreign exchange. Crude oil exports provide about 45% of foreign exchange receipts from commodity exports. The current level of oil reserves is around 3.1 billion barrels, and the Egyptian Government has encouraged international oil companies to expand their exploration activities in Egypt. Almost 85% of crude oil production comes from fields in the Sinai Peninsula and the Gulf of Suez, developed in the late 1970s. To encourage further active exploration and better recovery methods, the authorities have offered attractive terms to foreign companies also covering gas development. Crude oil production average about 880,000 barrels/day in 1995. Around 61% of oil output was refined domestically and 360,000 barrels/day exported. Efforts are being made to increase refinery capacity.

Gas discoveries have greatly encouraged the substitution of gas for oil products in domestic households, industrial usage, and for power generation. A number of projects are being prepared also to export gas to Israel, Jordan and Palestine by 1999. In 1995, 89% of electricity was generated from natural gas, compared to 20% ten years earlier. It is expected that by 1997 a full 95% of electricity will be generated by natural gas.

Table 1.1.10 Petroleum Production by Products.

(Unit: thousand tons)

Product	1992/93	199/94	1994/95	1995/96	1996/97	1997/98	1998/99	CR*1
Benzene (Gasoline)	1,932	1,900	1,890	1,910	1,987	2,030	2,208	2.3
Kerosene	2,226	1,877	1,744	1,199	1,269	1,260	1,072	-11.5
Jet Fuel	340	447	585	886	847	860	939	18.4
Gas Oil and Diesel Oil	4,118	4,415	5,111	5,488	5,810	5,889	6,007	6.5
Fuel Oil	11,536	11,502	11,744	12,212	12,557	12,700	12,773	1.7
Butane Gas	318	370	392	437	451	445	436	5.4
Natural Gas	7,160	8,226	9,114	9,710	10,168	10,434	11,872	8.8

Note) \* 1:Average Annual Changing Rate (%/annum), during 1992/93-1998/99

Source) Statistical Year Book, June 2000, Central Agency for Public Mobilization and statistics

Table 1.1.11 Mining Production by Products.

(Unit: thousand tons)

Product	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	CR*1
Crude Petroleum	44,000	45,000	45,000	44,000	44,000	42,000	40,000	40,000	-1.4
Phosphate	2,089	1,585	864	1,044	1,238	1,428	1,059	1,165	-8.0
Iron Ore	2,392	2,190	2,703	2,433	2,098	2,744	3,001	3,002	3.3
Salt (common)	936	972	1,116	1,193	1,632	2,024	2,588	2,588	15.6
Others	295	294	280	310	393	349	380	417	5.1

Note) \* 1:Average Annual Changing Rate (%/annum), during 1991/92-1998/99

Source) Statistical Year Book, June 2000, Central Agency for Public Mobilization and statistics

#### (4) Foreign Trade and Balance of Payment.

The balance of current account has a worsening trend in recent years. Imbalance in the trade balance has always been expanding due to a higher increase of the import payments than the export proceeds. Invisible trade surplus and transferred income have not been able to cover the expanding deficit in the trade balance (see Table 1.1.12).

To the contrary the export promotion policy, both the fuel exports and non-oil exports have stagnated since 1994. On the other hand, the rapid increase in import of the intermediate goods has brought about the steady increase in the total imports. This situation implies that the Egyptian industries import the intermediate goods, process them to finished and sell them mainly to the domestic markets (see Table 1.1.13).

Egyptian industries export more than one third of their products to the Western European market, following the Arab countries, Asian countries and North America, especially U.S.A. On the other hand, they import the products from the Western Europe, following the Asian countries, North America, and Eastern Europe in 1998 (see Table 1.1.14).

Table 1.1.12 Balance of Payments – Current Account

(Unit: US\$ billion)

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99
Trade Balance	-7.310	-7.854	-9.498	-10.219	-11.771	-12.524
Export Proceeds**	3.337	4.957	4.609	5.345	5.128	4.445
Petroleum	1.772	2.176	2.226	2.578	1.728	1.000
Other Exports	1.565	2.781	2.583	2.768	3.400	3.445
Import Payments**	10.647	12.811	14.107	15.565	16.899	16.969
Services (net)	3.674	4.42	5.792	6.193	4.692	5.946
Receipts	8.677	9.586	10.636	11.241	10.455	11.015
Transportation, Of Which	2.789	3.091	2.711	2.535	2.457	2.637
Suez Canal Dues	1.990	2.058	1.885	1.849	1.776	1.771
Travel	1.779	2.299	3.009	3.646	2.941	3.235
Investment Income	1.197	1.626	1.829	2.052	2.081	1.923
Government Services	0.491	0.293	0.285	0.216	0.303	0.308
Other Receipts	2.421	2.247	2.802	2.791	2.673	2.912
Payments	5.004	5.514	4.845	5.048	5.764	5.069
Transportation	0.236	0.245	0.203	0.242	0.362	0.377
Travel	1.501	1.129	1.335	1.333	1.307	1.104
Investment, of which	1.319	1.485	1.291	1.085	0.868	0.928
Interest Paid	-1.284	-1.237	-1.195	-0.995	-0.716	-0.789
Government Expenditures	0.216	0.327	0.437	0.511	0.856	0.511
Other Payments	1.732	2.329	1.579	1.877	2.371	2.148
Balance of Goods & Services	-3.636	-3.812	-3.707	-4.026	-7.079	-6.578
Transfers	4.046	4.198	3.521	4.145	4.600	4.869
Official (net)	0.814	0.919	0.724	0.890	0.883	1.097
Private (net)	3.232	3.279	2.798	3.256	3.718	3.772
Balance of Current Account	0.410	0.386	-0.185	0.119	-2.479	-1.709

Note) Data in this Table are based on banking sector compilation based on cash transaction, it may differ from data compiled by CAMPAS which are based on Custom Authorities' records of movement of goods.

\*\* Including exports and imports of free Zones as of 1996/97

Source) Central Bank of Egypt

Table 1.1.13 International Trade by Commodity

(Unit: US\$ million)

	1994	1995	1996	1997	1998	1999#
Trade Balance	-6,058	-8,237	-9,415	-9,302	-13,249	-12,459
Total Exports	3,517	3,523	3,617	3,931	3,253	3,560
		(0.2)	(2.7)	(8.7)	-(17.3)	(9.4)
National Exports	3,468	3,450	3,538	3,863		
		-(1%)	(3%)	(9%)		
Fuel Exports	1,332	1,269	1,675	1,721	927	1,286
Crude Oil	792	703	817	670	162	294
Other Products	540	566	858	1,051	765	992
Non-oil Exports	2,136	2,181	1,862	2,136	2,273	2,250
		(2.1)	-(14.6)	(14.7)	(6.4)	-(1.0)
Raw Cotton	233	152	92	111	158	240
Raw Materials	162	247	219	191	237	183
Semi-manufactured Goods	534	610	517	606	524	452
Finished goods	1,206	1,172	1,034	1,228	1,264	1,210
Free Zones	-	-	-	-	89	165
Re-exported Commodities	49	74	80	74	53	33
Discrepancy						-10
Total Imports	9,575	11,760	13,032	13,233	16,502	16,019
		(22.8)	(10.8)	(1.5)	(24.7)	-(2.9)
Fuel Imports	110	110	150	214	314	511
		-(10)	(37.0)	(43.0)	(557.5)	
Non-oil Imports	9,465	11,650	12,882	13,019	16,188	15,508
		(23.1)	(10.6)	(1.1)	(24.3)	-(4.2)
Raw Materials	1,539	1,656	2,245	1,707	2,168	2,179
		(21.9)	(35.5)	-(23.9)	(27.0)	(.05)
Intermediate Goods	3,791	5,174	5,461	5,636	7,400	7,145
		(36.5)	(5.5)	(3.2)	(31.3)	-(3.5)
Investment Goods	2,435	2,632	2,984	3,339	2,858	2,812
		(8.1)	(13.4)	(11.9)	-(14.4)	-(1.6)
Consumption Goods	1,881	2,188	2,192	2,337	2,680	2,645
		(16.3)	(0.2)	(6.6)	(14.7)	-(1.3)
Durable Goods	440	513	507	518	513	392
Non-durable Goods	1,441	1,675	1,685	1,820	2,167	2,253
Free Zones	-	-	-	-	1,082	730
Exchange Rate	3,390	3,392	3,393	3,392	3,395	3,396

( ) Percent change over previous year.

Note) Data in this table are based on Customs Authorities' computation of goods movements.

#:The Starting 1999 classifications of some imports items were changed according to CAPMAS.

In addition foreign partners share in gas and oil and exports were excluded for July 1999 data.

Source: CAPMAS, Exchange Rate CBE.



Table 1.1.14 Trading Partners of Egypt

(Unit: LE million)

	1995		1996		1997		1998*1		Share (%)	
									1998*1	
	EX*2	IM*2	EX	IM	EX	IM	EX	IM	EX	IM
Arab Countries	1,688	1,525	1,791	1,730	1,752	2,344	1,744	3,046	16.1	5.4
Eastern Europe	1,242	3,953	1,362	4,556	1,190	4,824	1,047	6,388	9.6	11.4
Western Europe	5,035	16,584	5,221	17,095	5,080	18,329	3,885	21,237	35.8	37.9
Asian Countries	1,765	5,751	1,990	5,974	2,719	6,530	1,456	8,586	13.4	15.3
African Countries	98	548	165	525	204	491	122	470	1.1	0.8
North America	1,869	7,801	1,651	9,232	1,598	6,342	1,434	7,433	13.2	13.3
South America	4	141	5	61	6	267	24	21	0.2	-
Central America	41	1,092	33	1,783	61	2,117	67	2,483	0.6	4.4
Oceania	5	518	6	1,468	11	1,739	14	1,130	0.1	2.0
Other Regions	207	1,977	52	1,794	715	1,902	1,073	5,232	9.9	9.3
Total	11,954	39,890	12,276	44,218	13,335	44,886	10,866	56,026	100.0	100.0

Note) \*1: Preliminary

Note) \*2: EX: Exports

IM: Imports

Source) Statistical Year Book, June 1999, Central Agency for Public Mobilization and Statistics

## 1.2 Transportation

The total numbers of the air passenger have an upward trend since the early 1990s. Increase in the domestic passengers seems to underpin the trend, while the number of the international passengers seems to have stagnated at around 2.2-3.0 million per year (arrival and departure) (see Table 1.2.1).

The number of the international maritime passengers has fluctuated between 1.7 and 2.0 million per year since the early 1990s, while the number of vessels has an upward trend. This situation implies that cargo vessels have increased (see Table 1.2.2).

The passenger-km of the railway passengers has increased at annual average increasing rate of 4.8%/annum during 1992/93-1997/98. The rate is almost same as the GDP growth rate. It can be supposed that the domestic air transportation has been used more frequently than the railway transportation for long distance trips, based on the following data shown in the Table 1.2.1 and Table 1.2.2 :

- The average annual increasing rate of the domestic air transport passengers for 1993-1997 is 16% /annum, while
- The average annual increasing rate of the passenger-km of the railway transportation for the same period is 4.9% /annum.

Accordingly, it can be estimated that the number of the railway passengers for short distance trips has increased at a rate of more than 4.8% per annum (see Table 1.2.2).

When reviewing the functions of the governorates from the national standpoint, the following can be roughly pointed out that the urban governorates work more strongly as the national business and political central than other governorate. In addition, there may exist difference in the per capita income between the urban and other regional governorates. Those two (2) factors are supposed to bring about the above-mentioned.

Table 1.2.1 Air Transportation

		1992	1993	1994	1995	1996	1997	1998	CR*1
Passengers (arrival and departure, million)	Total	12.707	9.711	9.515	4.416	13.492	13.794	12.107	-0.1
	Cairo	7.501	6.360	6.630	7.177	7.900	7.728	7.129	-0.1
	Other ports	5.206	3.351	2.885	4.239	5.592	6.066	4.978	-0.1
	International*2	2.295	3.009	3.745	2.938	2.308	1.662	2.151	-1.1
	Domestic*3	10.412	6.702	5.770	8.478	11.184	12.132	9.956	-0.1
Domestic Cargo (thousand tons)		87	123	105	117	135	145	150	9.5
No. of Aircrafts (arrival and departure, thousand)	Total	145	148	143	166	175	190	167	2.4
	Cairo	71	83	86	86	90	94	86	3.2
	Other ports	74	65	57	80	85	96	81	1.5
	International*2	-3	18	29	6	5	-2	5	N.A
	Domestic*3	148	130	114	160	170	192	162	1.5

Note) \*1: Average Annual Changing Rate (%/annum), during 1992-1998

Note) \*2: Consultant estimate.

“International” = “Cairo” – “Other airports”

Note) \*3: Consultant estimate

“Domestic” = “Total” – “International”

Source) The Statistical Year Book, June 2000, Central Agency for Public Mobilization and Statistics

Table 1.2.2 International Maritime Transportation and Railway Transportation

		92/93	93/94	94/95	95/96	96/97	97/98	98/99	CR*1
International maritime Transport Passengers (arrival and departure, million)		1.820	1.994	2.050	2.029	1.724	1.687	N.A	-1.5
Vessels (arrival and departure, million)	Total	7.805	8.585	9.350	10.574	11.180	13.599	13.184	9.1
	Med. ports	5.448	6.893	7.174	7.398	7.522	8.893	7.535	5.6
	Red sea ports	1.957	1.992	2.176	3.176	3.658	4.706	5.649	19.3
Railway Transport									
Passengers (passenger. Km, million)		44.744	46.721	48.243	50.655	52.929	56.667	N.A	4.8
Occupancy Rate (average , %)		112.2	119.5	121.8	123.1	123.1	126.1	N.A	2.4
Passengers coaches (thousand)		3.572	3.522	3.546	3.868	3.586	3.501	N.A	0.0
Wagons (thousand)		12.010	12.086	12.328	12.622	12.563	12.526	N.A	0.8

Note) \*1 : Average Annual Changing Rate (%/annum), during 1992/93-1997/98 or 1998/99.

Source) The Statistical Year Book, June 2000, Central Agency for Public Mobilization and Statistics

There exists a big difference in the spatial distributions of population and number of in-movement licensed vehicles.

Table 1.2.3 In-movement Licensed Vehicles  
- at the end of December, 1998 -

	Urban Governorates	Lower Egypt Governorates	Upper Egypt Governorates	Frontier Governorates	Total	Share (%)
Private care	792,391	161,707	263,560	7,801	1,225,459	42.6
Taxi	116,108	90,279	79,037	6,176	291,600	10.1
Other car	1,140	64	436	9	1,649	0.1
Buses	Public	6,489	4,998	1,263	12,872	0.4
	Private	11,735	4,489	3,668	20,157	0.7
	Others	8,299	1,854	1,640	12,120	0.4
	Total	26,523	11,341	6,571	714	45,149
Lorry	171,021	188,126	117,480	16,927	493,554	17.2
Trucks	24,180	17,272	6,525	890	48,867	1.7
Tractors	1,480	13,989	4,852	628	20,949	0.7
Motorcycles	132,286	202,165	121,502	4,945	460,898	16.0
Government and Governorates cars	202,615	44,420	33,260	5,970	286,265	10.0
Total	1,467,744	729,363	633,223	44,060	2,874,390	100.0
Shares (%)	51.1	25.4	22.0	1.5	100.0	

Source) General Traffic Department, The Statistical Year Book, June 2000, Central Agency for Public Mobilization and Statistics

Table 1.2.4 Population and Vehicles

	Urban Governorates	Lower Egypt Governorates	Upper Egypt Governorates	Frontier Governorates	Total
Population*1	18.6%	43.5%	36.5%	1.4%	100.0%
Vehicles*2	51.1%	25.4%	22.0%	1.5%	100.0%

Note) \*1: see Table 1.1.3

Note) \*2: see Table 1.2.3

### **1.3 National Budget**

Until the fiscal year 1997/98, Egypt had kept a very tight budgeting policy. As the result, the total deficit of the national budget had been kept at LE 2.3-3.7 billion in each year whose ratio to the Egyptian nominal GDP had been within 0.9-2.1%. It can be concluded that the situation of the national budget is to be praised, compared with the ones in the developed countries (see Table 1.3.1).

In the fiscal year 1998/99, the budging policy was changed from the tight one to positive one, resulting in a rapid increase of the total deficit. A jumping increase of the investment expenditure from the previous fiscal year brought about the large portion of the increased total deficit. The investment expenditure had increased by LE 1.2-1.5 billion in each year until the year 1997/98. But in 1998/99, the incremental portion become about seven (7) times the past ones, and it reached to LE 25.3 billion.

These investments were concentrated in infrastructure projects to meet the needs of the citizens and investors. Emphasis was also placed on the areas of services, education, housing, transport and communications, agriculture and electricity.

Tax revenues share 65.6% of the total revenues. To increase the tax revenues and finally keep the deficit / GDP ratio within the targeted 1%, the following measures are taken: Law No.3 for 1999 was put in action, by which tax incentive were offered with varied ratio in order to encourage tax payers to honor their obligations without delay. The executive regulations of the said law were promulgated by virtue of the resolution No. 252 for 1999. Resolution No. 1777 for 1998 stipulated the inclusion of new cities to be covered by the entertainment tax, in addition to some other measures pertaining to the general sales tax.

Table 1.3.1 Summary of National Budget Operation.

(Unit: LE billion)

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99 Revised
Total Revenues	52.567	55.719	60.893	64.498	67.963	73.279
Tax revenues	31.373	34.279	38.249	40.518	43.962	48.096
Transferred profits	9.070	10.542	11.133	11.423	10.780	9.501
Other non-tax revenues	5.941	5.068	5.104	5.238	5.293	5.161
Non-Central Government revenues *	6.183	5.830	6.407	7.319	7.928	10.521
Total Expenditure, of which:	56.264	58.256	63.889	66.826	70.783	86.009
Current expenditure	45.912	46.933	51.196	53.030	#54.747	60.254
Of which: Domestic interest payments	11.816	11.177	12.231	12.337	12.219	14.081
Foreign interest payments	4.682	3.613	3.796	3.114	2.724	2.325
Investment expenditure	10.659	11.299	12.581	14.070	15.635	25.321
Overall Balance	-3.697	-2.537	-2.996	-2.328	-2.820	-12.730
Overall Balance as % of GDP	-2.1	-1.3	-1.3	-0.9	-1.0	-4.2

\*: Includes local government, public services authorities, self-financing investments, and privatization proceeds.

Source) Ministry of finance

## 1.4 Employment

Total employment of Egypt had increased at average annual rate of 3.0% during the years 1991/92 – 1998/99. The rate is higher than the population growth rate of 2.0% per annum for the same period. This situation implies that the Egyptian labor market had been rapidly improved (see Table 1.4.1).

The employments in the following three (3) major sectors had increased during the years 1991/92-1998/99 at rates of:

Agriculture	:1.0% / annum
Government Services and Social insurance	:5.7% / annum
Manufacturing and Mining	:3.3% / annum

And numbers of employments in the sectors in 1998/99 were:

Agriculture	:4.9 millions	29.0%
Government Services and Social insurance	:3.7 millions	22.1%
Manufacturing and Mining	:2.3 millions	13.7%
Total employments	:16.9 millions	100.0%

Based on the above facts, it can be concluded that the incremental employment had been absorbed basically in the agriculture sector and the total social service sector.

Employment in the informal sector in 1998/99 is estimated to be 6.4 millions and it shares about 23% of the total labor on the following assumptions:

Labor force ratio:	43% (around worldwide average)
Unemployment ratio:	15% (World Bank report)

Table 1.4.1 Distribution of Employment according to Economic Sectors

(Unit: thousand)

Sector	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98 Adjusted	1998/99 Projections	CR*
Agriculture	4,585.0	4,620.0	4,682.0	4,744.0	4,812.0	4,747.0	4,820.0	4,899.0	1.0
Manufacturing and Mining	1,838.0	1,876.0	1,952.0	2,031.0	2,099.0	2,038.0	2,182.0	2,305.0	3.3
Oil and Products	37.0	38.0	40.0	41.0	42.0	43.0	44.0	46.0	3.2
Construction	871.0	914.0	982.0	1,038.0	1,100.0	1,140.0	1,215.0	1,294.0	5.8
Electricity	104.0	106.0	110.0	114.0	118.0	120.0	124.0	129.0	3.1
<b>Total commodity sectors</b>	<b>7,435.0</b>	<b>7,554.0</b>	<b>7,766.0</b>	<b>7,968.0</b>	<b>8,171.0</b>	<b>8,088.0</b>	<b>8,385.0</b>	<b>8,673.0</b>	<b>2.2</b>
Transport, communications, Storage and Suez Canal	614.0	637.0	665.0	690.0	714.0	704.0	732.0	757.0	3.0
Trade, Finance and Insurance	1,463.0	1,493.0	1,553.0	1,624.0	1,699.0	1,679.0	1,745.0	1,814.0	3.1
Tourism, Hotels & Restaurants	151.0	130.0	133.0	136.0	140.0	145.0	145.0	145.0	-0.6
<b>Total Productive Services Sectors</b>	<b>2,228.0</b>	<b>2,260.0</b>	<b>2,351.0</b>	<b>2,450.0</b>	<b>2,553.0</b>	<b>2,528.0</b>	<b>2,622.0</b>	<b>2,716.0</b>	<b>2.9</b>
Housing and Public Utilities	217.0	221.0	226.0	230.0	234.0	219.0	223.0	227.0	0.6
Social and private Service	1,332.0	1,370.0	1,436.0	1,506.0	1,584.0	1,413.0	1,467.0	1,527.0	2.0
Government Services & Social Insurance	2,530.0	2,586.0	2,657.0	2,725.0	2,798.0	3,577.0	3,647.0	3,726.0	5.7
<b>Total Social Services Sectors</b>	<b>4,079.0</b>	<b>4,177.0</b>	<b>4,319.0</b>	<b>4,461.0</b>	<b>4,616.0</b>	<b>5,209.0</b>	<b>5,337.0</b>	<b>5,480.0</b>	<b>4.3</b>
<b>Grand Total</b>	<b>13,742.0</b>	<b>14,011.0</b>	<b>14,436.0</b>	<b>14,879.0</b>	<b>15,340.0</b>	<b>15,825.0</b>	<b>16,344.0</b>	<b>16,869.0</b>	<b>3.0</b>

Note) \*: Average annual Changing Rate (%/annum), during 1991/92-1998/99.

Source) Economic and Social Development plan - Ministry of Planning.



## **Chapter 2 Economic Policy and Development Plans in Egypt**

### **2.1 Background**

In the late 1980s, the Egyptian economy and society were in the following situation:

- The foreign debt reached \$50 billion in 1990, with an annual debt service of \$6.6 billion and a debt-service ratio of 56%. Import capacity was drastically reduced.
- Non-oil exports declined with the exception of textiles and clothing.
- Domestic manufacturers benefited from high import duties and quantitative import restrictions. The price distortions, including negative real interest rates and low domestic energy prices, encouraged capital –and energy- intensive sub sectors such as metallurgical industry, basic chemical and transport rather than investment in food processing or textiles.
- Comparative advantages such as the agrarian potential and the inexpensive labor force were not being exploited.
- Agricultural production was impeded by low administered purchase prices. Manufacturing remained dependent on imported raw materials and did not make use of export opportunities, e.g. to neighboring Arab Gulf countries.
- A structural adjustment program was undertaken in 1986 but was not fully implemented.
- Budget and current account deficit and increasing debts led to an unsustainable macroeconomic imbalance. Capital inflows decreased, arrears piled up and GDP growth dropped, whereas inflation accelerated to more than 20% and open unemployment rose to more than 10%.

In 1990, the Egyptian government decided to embark on an economic reform and structural adjustment program.

It aims at macroeconomic stabilization (budget, trade balance, inflation), structural adjustment and correcting social policies, especially by targeting subsidies to those population groups that really needed them, as well as by establishing a social safety net for the most vulnerable poor.

Major components of an unavailable reform process, which Egypt had no choice but to tackle, are:

- Macroeconomic stabilization in view of inflation, current account and budget deficits, restoration of creditworthiness, and the establishment of a macroeconomic policy framework conducive to efficient and competitive business activities.
- Restructuring and privatization of public enterprises, reform of financial relationships between public enterprises, the banking system and the Egyptian government; elimination of the soft budget constraint; full managerial autonomy; and the liquidation of unviable public enterprises.
- Domestic price liberalization and removal of distortions: decontrol of prices in the public and private agricultural and manufacturing sectors within three years. Oil,

gasoline and kerosene prices were to be gradually increased to international levels, and transport and electricity tariffs to their long-term marginal costs,

- Foreign trade liberalization, promotion of import competition and international competitiveness of exports through the removal of government-imposed distortions in the incentive system. Most non-tariff barriers on imports and exports were to be phased out within two years. The high customs tariffs were to be reduced and restrictions on exports were to be eliminated.
- Private Sector reform was geared to promote competition, to enable easier market entry and exit, and factor mobility for both capital and labor. Many investment and production controls were to be abolished, government monopolies were to be dismantled and private sector discrimination in the purchase of inputs from public sector companies was to be phased out.
- The Social Fund for Development was to ease the social consequences of the reform process particularly for the surplus employees in the public enterprises to be laid off during the reform process (employment programmer, retraining schemes, loans for the establishment of small enterprises etc.)

## **2.2 Economic Policies**

### **2.2.1 Price Policy**

In line with IMF demands for ending subsidies and adjusting prices to their world levels (price liberalization policy), in May 1991 the government raised gasoline price by 33%, kerosene and diesel fuel by 100%, fuel oil by 14% and butane gas (a basic necessity for cooking in low income household) by 66.6%. As the result, the consumer price for urban areas started increasing more than 20% per annum in 1991 and 1992. However, the price had a depressing trend afterward and continued to increase at rate of less than 5% per annum since 1997. This situation implies that Egypt has succeeded in the price liberalization.

### **2.2.2 Investment policy**

Since 1996 and with the beginning of phase III of economic reform, local and foreign investments have increased at a rapid pace.

The government has been exerting intensive efforts to remove hurdles and roadblocks to investment. A comprehensive umbrella of laws to protect and guarantee invested funds was provided. This legislation was crowned with the Investment Incentives and Guarantees Law promulgated in May 1997. The law provides for improved advantages to investors, including unobstructed right to repatriate capital and profits earned, tax holidays among others. Moreover, the state has strived to remove all bureaucratic and administrative barriers to investment projects. Besides, an investment map has been drawn up to identify suitable locations for every project throughout the country. In parallel, efforts were exerted to maintain the current high level of investment by implementing plans to promote direct local and foreign investments especially those bringing in advanced technology. The Public Investment Authority (PIA) plays an important role in this area by providing consulting services to businessmen and small investors. It also supervises investments in free zones.

The government has intensified its effort to organize the capital market as a principal channel to attract foreign and national capital. In the meantime, sustained efforts are exerted to upgrade the banking sector. Small and medium projects are assisted to obtain financing at rates proportional to their resources. It is planned also to gradually raise real saving GDP ratio to reach 27-28% leading to a growth rate of 7%.

### **2.2.3 Privatization policy**

#### **(1) Privatization of public sector companies**

The Public Business Enterprise Law 203 of 1991 governs the restructuring of 314 public sector enterprises. The law removed all government control over public sector companies restructuring them as affiliates under 16 financially autonomous holding companies. To expose them to free market conditions and facilitate their privatization, the government abolished credit guarantees from the national budget and investment financing.

Within the context of the government's program, privatization may take any of the following forms:

- The transfer of ownership and control of state-owned enterprises to the private sector through a partial or full public share flotation on both the domestic or foreign stock exchanges.
- Direct sale of a controlling interest to domestic and/or foreign investors.
- Direct sale of a controlling interest to employees.
- The law also allows the sale or lease of company assets, unlimited sale of government-owned shares or liquidation.

The privatization program in Egypt is twofold. The First and, most dynamic fold, involves divestment of public sector holdings in production and manufacturing companies. The second fold of the privatization program is the encouragement of private sector investments in those sectors that were historically controlled and operated by the public sector including electricity, roads, airports, maritime ports, and oil and gas transmission.

Throughout the reform period, the government has provided a conducive privatization environment through the removal of trade barriers, the relaxation of industrial investment licensing procedures, the reform at trade and financial markets as well as the legal, taxation and regulatory frameworks.

The recent development in the privatization is as follows:

The various state authorities jointly collaborate at all levels to enhance development. The constitutional court has upheld the right of the government to transfer public ownership to the private sector.

In addition, the process of privatization was launched along two phases. During the first phase running from 1993/94 to January 1996, three (3) companies were sold outright to the private sector (anchor investor sales) and 16 were partially divested (proportions ranging from 5% to 20%), through the stock market.

The second phase witnessed an impressive acceleration in the pace of privatization with an increase in the number of companies sold, as well as broadening the types of companies sold and the modalities employed.

The companies that have been privatized were diversified over a number of sectors including agriculture, real estate and construction, food and beverages, milling, pharmaceutical, cement, chemicals, and fertilizer, engineering, retail, and textiles. In addition, the scope of privatization has been widened to encompass infrastructure, giving the private sector the lead in all new mega projects such as new ports development and port services, telecommunications, power generation, electricity distribution and the New Valley.

The total privatization efforts has involved the sale of interests in 127 companies bringing in proceeds worth LE 10.7b, which represent some 3.5% of GDP. Out of the original portfolio of 314 companies, the government has sold controlling interests in 82 companies and minority interest in another 18 companies.

Table 2.2.1 Major Achievements in privatization

	1994	1995	1996	1997	1998	1999
Total number of companies	10	11	32	42	119	127
Sale to anchor investors	2	1	3	2	n.a	10
Sale of majority stake through the stock market			15	13	31	37
Sale of minority stake	1	1	7	1	n.a	10
Sale of trenches	4	3	0	2	6	8
Sale to ESAs	4	6	0	5	26	29
Sale of assets			2	19	27	27
Proceeds (L.E. mn)	925	1,003	3,691	4,240	3,496	10,717
Assets value (L.E. mn)	4,030	3,218	11,800	8,026	n.a	n.a
Percentage of privatized law 203 companies	6.6	7.3	13.7	22.3	26.7	40.5

1/ Cumulative from 1994

\*To avoid duplication, sold more than one branch counted only once in total number of companies.

\*\* Most of these companies are under the process of liquidation.

Source) Ministry of Public Enterprise.

## (2) Privatization of public sector projects

The scope of privatization has been widened to encompass infrastructure, giving the private sector the lead in all new projects such as new ports development and port services, telecommunications, power generation, electricity distribution and the New Valley.

Already the government has approved private sector investments in the form of Build Operation Transfer (BOT) projects in power generation, telecommunications, airports and highways. And the first BOT dual gas/oil fired power station of 650 MW at Sidi Krir will be commissioned by 2001.

The privatization program has faced some difficulties in its initial stages that have slowed its implementation. The privatization of state-owned enterprises was met with considerable opposition from vested interests as well as technical problems including insufficient experience and skills to evaluate assets and prepare divestment strategies; small capital market and limited financial capabilities of the private sector.

## 2.2.4 Open Door Policy

### (1) Trade liberalization and promotion.

Egypt has and is going to promote the trade liberalization and expansion through being membership of the following regional common markets and establishing new liberalization common markets;

- Egypt attempts to boast faster liberalization with a more dynamic hard core of Arab countries (Mediterranean Arab Free Trade Area – MAFTA). A member of bilateral agreements has been signed with Tunisia, Morocco, Jordan, Lebanon, and are envisaged to develop with Turkey and others.
- Egypt becomes a member of the COMESA (Common Market for Eastern and South Africa), which has great ambitions to set up a Free Trade Area and customs union in the medium term.
- Trade and Investment Framework Agreement (TIFA) were recently signed between Egypt and USA.
- Egypt is trying to formulate the Pan-Arab Free Trade Agreement which aims at bringing industrial duties down to zero over a period of 10 years applied at regional level, and
- A major Euro-Mediterranean Agreement is in the process of being signed with the EU. This will establish in Free Trade Area over a transitional period of 12 years, which would provide for reciprocal liberalization of all industrial commodities and, to a significant extent, agriculture trade.

### (2) Inflows of foreign capital

In order to increase the inflows of the foreign capital, Egypt has already established the following two domestic laws:

- Law No. 8 of 1997 and
- Law No. 230 of 1989.

Under the Law No. 8 of 1997, the following guarantees and incentives are provided to the potential foreign investors in Egypt:

- A project could be wholly owned by foreigners,
- Guarantees against nationalization and expropriation of the project. Besides, any seizures of the assets of a project are to be effected through a court judgment,
- Output of the project is not subject to price control,
- Projects are allowed to repatriate their capital and profit, and others.

The Law No. 230 of 1989 granted a number of investment incentives. It includes tax exemptions for regional development projects and investments which were for promoting exports, employment or technology transfer with equal treatment of Egyptian and foreign investors. And also, the Law 230 projects were exempt from minimum ceilings on

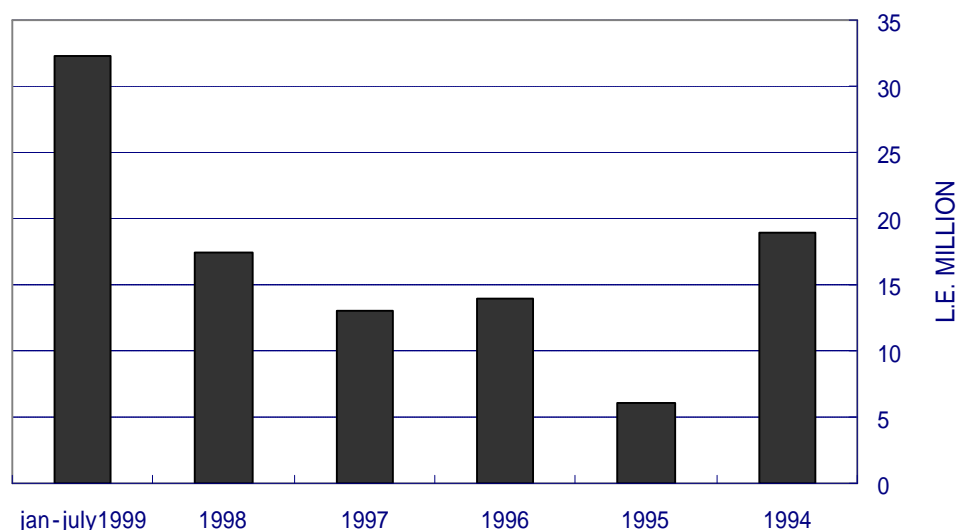
Egyptian equity participation, price controls and limits on disposal of shares.

In both the cases of the general authority for investment and free zone, and companies' organization, the percent of foreign participation have increased rapidly (see Table 2.2.2, Figure 2.2.1).

Table 2.2.2 Number of Companies and Value of Issued Capital and Foreign Participation

	1994	1995	1996	1997	1998	jan-july1999
<b>General Authority for Investment &amp; Free Zones</b>						
Number	891	1,253	1,674	1,552	2,187	1,293
Issued capital	4,536	7,779	8,943	17,785	19,220	7,054
Percent of Foreign Participation	19.0	6.0	14.0	13.0	17.5	32.3
<b>Companies Organization</b>						
Number	761	1,153	1,518	1,982	1,969	1,042
Issued capital	848	2,236	5,132	5,939	6,539	3,256
Percent of Foreign Participation	1.1	4.0	0.8	2.4	7.3	13.7

Source) General Authority for Investment & Free Zones, Companies Organization



Source) General Authority for Investment & Free Zones, Companies Organization

Figure 2.2.1 Share of Foreign Equity in New Joint Stock Companies

## 2.3 Fourth Five Year Plan

### 2.3.1 General Framework

#### (1) GDP

The fourth five-year plan envisages a rise in the overall resource of the economy by 35.7% and at an annual growth rate of 6.9%. GDP of Industry is to rise at an annual growth rate from 8.7% in 1996/97 to 10.8% in 2001/02. Agriculture sector's GDP will reach 15.5% of the total GDP with the growth of 4.2% by the end of plan.

The agricultural crops whose exports are expected to grow in the next five years include fresh and frozen vegetable, 14.4%; fruits, 20.5%; potatoes, 12.8%, and medicinal and perfume herbs, 14.5%. Cotton also continues to be exported in adequate in order to presence on world markets.

As to industrial exports, they are expected to grow at 25.1% for engineering industries, 19% for food industries, 17% for chemical industries, 23.2% for construction and refractory industries and a high growth rate is forecast for leather and furniture industries.

Targeted total GDP for the Year 2001/02 according to Economic Sectors is shown in Table 2.3.1.

Table 2.3.1 Targeted Total GDP for year 2001/02 according to Economic Sectors

(Unit: LE million at the 1996/97 prices)

Sector	Expected for 1997/98	Planned for 2001/02	Annual growth rate* (%)
Agriculture	42,325	52,021	4.2
Industry	43,383	72,447	10.8
Petroleum	15,854	16,713	1.1
Electricity	4,220	6,185	7.9
Construction	12,750	21,507	11.0
Total of commodity production	118,532	168,846	7.3
Total of commodity Service	77,552	111,142	7.5
Total of production	43,416	55,012	4.8
Total	239,500	335,000	6.9

Note) \* : For period 1996/97-2001/02.

Source) The Fourth Five Year plan for Economic and Social Development (1997/98-2001/02), and the plan of Its First Year (1997-98), The Ministry of Planning



## (2) Population

Population features at the end of plan are shown in Table 2.3.2.

Table 2.3.2 Population Features of 2001/02

Item	1996/97	2001/02
Population growth rate	1.94%	1.66%
Birth Rate	2.60%	2.27%
Mortality Rate	0.66%	0.16%
Average babies per woman	3.4	2.9
Use of birth-control by wives	50%	60%

Source) The Fourth Five Year Plan for Economic and Social Development (1997/98-2001/02), and The plan of Its First year (1997/98), The Ministry of Planning

### 2.3.2 Sector Plans

#### (1) The Agricultural Sector

The 1997/98-2001/02 five-year plan aims at adding more arable land to the cultivated area, so as to increase the agricultural production. The most significant aspects of the crop structure targeted are as follows:

- Cultivating 2,850 thousand feddans with wheat, with a 14% increase over the wheat-cultivated area in 1997/98, so as to increase the level of self-sufficiency and curb imports
- Cultivating 430,000 feddand with barley, with a 91.1% increase over 1997/98, to exploit the large volume of rain in coastal areas
- Cultivating 2,320 thousand feddans with maize, with an 11.65 increase over 1997/98, to meet human needs and supply corn for the mixed-flour bread program.

#### (2) The Industrial Sector

Some of the most important proposed projects of the industrial sector during the five-year plan (1997/2001) are as follows:

Chemical industries projects that will produce phosphoric acid and ammonium phosphate dioxide fertilizer with a capacity of 500,000 tons yearly, as well as urea fertilizer 46.5%, azotes ammonium nitrate fertilizer 33.5% with a capacity of 750,000 tons annually, completing extensive production of newsprint and packaging paper, producing 9.6 million tons of cement.

According to the fourth five-year plan (1997/2002), the industrial production is expected to grow at a rate of 9.5% annually in the average over the five years.

Production volumes selected industrial products are shown in Table 2.3.3.

Table 2.3.3 Production Volume of Selected Industrial products in 2001/02

Commodity	Unit	Volume in 1996/97	Volume in 2001/02	Annual Growth Rate (%)
Aluminum	'000tons	180	257	7.4
Reinforcing iron	'000tons	2,100	3,100	8.1
Phosphate fertilizer	'000tons	1,210	1,900	9.4
Cement	'000tons	19,800	30,000	8.7
Refined sugar	'000tons	1,231	1,503	4.1
Flour and shelled	'000tons	13,487	14,484	1.4
Oils	'000tons	366	543	8.2
Cotton yarn/fibroin	'000tons	325	390	3.7
Garments	Million pieces	193	300	9.2

Source) The fourth Five-Year plan for Economic and Social Development (1997/98- 2001/01), And plan of Its First Year, The Ministry of Planning

## **2.4 Egypt in the 21st Century**

### **2.4.1 Framework**

According to the most conservative estimation, population is projected to reach 80 million in 2017, excluding Egyptian expatriates abroad. This requires successful family planning and increased of the need to maintain the downtrend of population growth rate and bring it gradually to around 1.2% in 2017.

### **2.4.2 Sector Plans**

#### **(1) Agriculture Development**

Agriculture development strategy is primarily based on preserving and improving the productivity of cultivated land, and protecting it from urban expansion. It is also planned to further the productivity of the newly reclaimed land since 1982, amounting to 1.6million feddens, adjacent to the boundaries of the Old Valley, and to east and west of the Delta. It is also targeted to increase agricultural production at a real growth rate of around 4% per annum, in order to meet food requirements of the population and cope with the needs of development.

Crop structure should be adjusted in line with an indicative policy, taking into consideration water rationing and relationship between water unit and value added for each crop, especially rice and sugar cane. Areas for growing grain crops should be expanded and rainy coastal areas exploited.

#### **(2) Industrial Development**

Industrial development is the mainstay for establishing production bases and maximizing the export capabilities of the national economy. The fourth five-year plan targeted a growth rate of no less than 9% and it would progressively rise to an average of 11% until 2017.

#### **(3) Petroleum**

The petroleum sector plays a leading role as a foreign currency-generating activity. It has become the main source of operating electric power, and the basic raw material for some industries such as Azotes fertilizers. The development strategy of this sector is based on integrated policies based on the following:

- Maximizing the pivotal role of the petroleum sector as a key source of national income, foreign exchange, and job opportunity.
- Preserve and protect the environmental against pollution.
- Boost development efforts north of the Valley by increasing available refinery capacity at Wadi Firan refinery, and so on.

## 2.5 Regional Development Policy and Plans

### 2.5.1 Regional Development Policy

Along with the socio-economic development policies, the following subjects are enumerated as the national basic regional development objectives:

- Distribution of the population over the territory as widely as possible, and
- Utilization of undeveloped natural resources including the land as much as possible.

High importance is put on the following strategies to attain the objectives:

- Development of the Sinai Peninsular, and
- Development of the South Egypt (New Valley).

As to the development objective “Distribution of the population”, the objective seems to have been gradually attained as shown in Table 2.5.1 .

Table 2.5.1 Percentage Distribution of Population by Sub Regions  
- 1966, 1976, 1986, and 1996 Censuses -

	1966	1976	1986	1996
Total Egypt	100.0	100.0	100.0	100.0
Urban Governorates	21.8	21.4	20.2	18.7
Lower Egypt Governorates	42.7	43.3	43.2	43.5
Upper Egypt Governorates	34.3	34.6	35.5	36.5
Frontier Governorates	1.5	0.7	1.2	1.4

Source) the Statistical Year Book June 1999, Central Agency for Public Mobilization and Statistics

### 2.5.2 Free Zone Projects

Extending on Egypt’s strategic geographic location, free zones intend to capitalize on and encourage another export platform for Egypt. Free zones are also Governed by Law 8 of 1997.

There are two types of free zones: public free zones and private free zones. Private free zones are established for a special project or company, which in turn accommodates for storage, warehousing, mixing and repackage, assembly and manufacturing for export and services activities.

Today there are six public free zones established by the General Authority for Investment and there are yet another five to follow.

All free zones extend life-time incentives for investment in addition to complete exemption from all Egyptian income taxes, general sales tax and other direct taxes. There are no restrictions on investment activities, and there are no custom duties or charges on the

importation or exportation of the products of the project. Besides, a project is exempt from the regulations governing importation and exportation.

Free zone investors may sell their products in the Egyptian market after paying a reduced tariff, based on imported constituents only.

Table 2.5.2 Investments in Egypt's Major Public Free Zones As at June 1999.

(unit: US dollar million)

	Nasr City (Cairo)	Alexandria	Port said	Suez	Ismaillia	Damietta	Total
Number of Projects	174	363	140	85	76	63	901
Cumulative Equity Capital	1,116	1,945	574	1,143	264	257	5,299
Cumulative Investment Cost	2,245	4,867	2,051	2,903	302	1,956	14,324

Source) General Authority for Investment & Free Zones, Investment in Egypt Ministry of Economy and Foreign Trade, December 1999.

### 2.5.3 Port Said East Area Development Plan

#### (1) Objective of the plan

In June 1997, the government has initiated the development of a free zone area East of the Suez Canal at Port Said. The project comprises construction of a Hub Port and free industrial zone. And the government expects the project to contribute to the Sinai Development.

#### (2) Outline of the project

The port will be constructed over 25 km<sup>2</sup> and includes about 12 km of quay walls with the associated container and general cargo terminals. The industrial zone area is about 87.6 Km<sup>2</sup> and is planned to develop industries oriented towards export.

The government is funding the construction of the coastal engineering works and dredging, the break waters, the 1200m quay wall and the main utilities, while the investors will fund the container terminal port infrastructure, equipment and operation, the general cargo quay wall, terminal infrastructure and operation in a BOT (Build-Operation-Transfer) basis.

#### (3) Implementation schedule of the port facilities

The port facilities have been and will be proceeded in two construction stages: Stage 1 and the Following Stages. At the Stage 1, major facilities including the container terminal will be completed and at the Following stages, the remaining facilities will be finished. It is

planned that these stages are planned to be proceeded in phases according to the development of the industrial zone activities and also according to the development of container transshipment in the region.

The current schedule designed by national management, planning and technologically high outlook which is progressing as planned estimates that the port will be opened for international container handling in the second half of the year 2001. The key behind this great achievement is due to the effective support of the Ministry of Transportation that has given full support to this project.

#### **2.5.4 North Alsukhna Port Project**

In March 1998, the Government of the Arab Republic of Egypt initiated the Project of development of the area located north west of the Gulf of Suez near Alsukhna based on previous economical studies presented during the previous 5 years. The development of the area comprises the following:

- Economical and industrial zone, and
- International modern port classified as a third generation port.

The construction of two industrial and economical free zones is to be established for heavy and petrochemical industries and other economical activities. The objective of the free zones is to cover the local needs and to increase the export outcome and also to create new employment opportunities.

The construction of a multi-purpose international port is to serve the import and export of general cargo and container handling. An area of 22.3 Km<sup>2</sup> is allocated for the port. The site of the port is located 40 km south the Port of Suez. The port is affiliated to the Red Sea Ports Authority.