ON THE EMERGING INDUSTRIALISATION POLICIES AND PRACTICES IN THE ARAB REPUBLIC OF EGYPT

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Up to the late seventies, and as a result of a war-based economy and socialist system influences, the conditions in Egypt were not ripe for industrialisation. In the early eighties, the industrial sector was still tied up to the import substitutions strategy and export was viewed as surplus export. It was only in the nineties that, with new investment laws and privatisation, and in spite of shrinking development assistance, fully autonomous industrial cities with common facilities and infrastructure were planned and started being implemented. The author traces the development of the industrial sector in Egypt over fifty years, stressing the difficulties encountered as well as the measures taken by the government to set industrialisation on the right track.

1. INTRODUCTION

Egypt was known as an agricultural land and was encouraged to remain so by those external influences which stood to benefit from that situation. Egypt embarked on industrialisation some fifty years ago but the road was bumpy. During those fifty years, the economy of Egypt was characterised for many years as war-based due to the many military conflicts in which Egypt was involved. This depleted the national treasury of the much-needed financial, human and physical resources to establish true, effective, productive and competitive industries. In fact, the establishment of the first truly well-studied and planned industrial estate in the Mansura District was aborted due to the diversion of resources following the eruption of the 1967 war.

The early attempts at industrialisation were influenced by the socialist systems which the Government copied without due regard to the differences

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between conditions in Egypt and those in the Socialist States. This resulted in establishing state-owned industries that kept growing in size until they became a monster, alias referred to as the Public Sector. Inefficiencies of operation, lack of incentives and a sense of indifference among the industry people then had resulted in failing that industrial policy.

2. DIFFICULTIES

To understand the difficulties, one has to recall that the population of Egypt (currently 62 million) occupied only 4% of the total land of Egypt. The more people were born, the more the space they needed to live on, the more jobs to be created, the more training institutions to be established and the more food to be produced. All of this translated into the need for more financial resources and the existence of a good infrastructure and a strengthened economy. One of the pillars of a strong economy is, of course, a well-planned and well-executed industrial policy.

Industry needed a modern infrastructure to function, skilled labour to operate the machinery and to produce good quality products, tax holidays to encourage the entrepreneurs to delve into private business, good marketing policies to ensure marketability of their products, and a sense of security for their investments and profit.

Unfortunately, the situation in Egypt in the late seventies and the conditions that prevailed then had two main features resulting in adverse impacts:

1. The infrastructure long-ignored by the Government during the war years was deteriorating and needed huge resources to be upgraded; and

2. Despite the thousands of acres reclaimed from the desert, there was a net loss of agricultural land due to the continued depletion of soil clearing the arable space for new constructions.

Around twenty years ago, the Government initiated a series of National Development Plans, each of which spanned five years, which started to focus on improving the degraded infrastructure, then went into reforming the economy and increasing the role played by the Private Sector, and finally into full liberalisation of the economy. The resulting gradual change in its industrial policy, as part of the open-door policy introduced by the late President Sadat, gave way to the Private Sector to emerge, grow and prove its worth. In fact, it grew at such a fast rate that in 1995 it accounted for 60% of
all the industries in Egypt. However, this achievement was not easy and a number of obstacles had to be removed first.

In the early eighties, the industrial sector was still tied to the traditional import substitution strategy. Though the government plan appeared to recognise the growing need to export, it viewed export as surplus production beyond the requirements of the domestic market. The protectionist environment in which industrialisation occurred then produced a situation where much of Egypt’s industry was not only unable to compete in world markets, a feature reflecting the weak performance of Egypt’s manufactured exports, but was also non-competitive in the domestic market. One decade later, the Government adopted a firmer position by deciding that “one of the goals to be achieved is industrialisation for export which will require a change in production methods so that Egyptian products will be strong enough to compete in world markets”.

Egypt decided to concentrate on two essential ingredients: know-how and cost. Know-how can be realised through using the experience gained in recent years, and importing foreign expertise. Reducing production costs, so that Egyptian goods can be more competitive abroad, required exploitation of the country’s comparative advantage with respect to location near world markets (hence low transport costs) and relatively low labour costs. Increased use of domestic natural gas resources instead of electricity and petroleum products would help reduce production costs and make Egyptian goods more competitive. This policy was intended to produce the following objectives:

1. Achieving self-sufficiency in most consumer industries;

2. Exploiting idle capacity in public sector production units and using it more efficiently by introducing modern technology where it can be absorbed with the least possible cost;

3. Raising the quality of production to conform to established standards and encouraging export industries;

4. Expanding the domestic manufacture of equipment and spare parts needed for investment;

5. Continuing efforts to raise worker efficiency through training and retraining, expanding centres for vocational training and industrial
apprenticeship, selecting qualified upper-level management and giving it the authority needed;

6. Eliminating stagnant inventory to reduce finance burdens, address financial defects and provide liquidity to public sector companies;

7. Encouraging domestic and foreign capital financing of industry; and

8. Establishing production lines producing only for foreign markets.

The situation prevailing then needed radical solutions in a country known for its conservative moves.

3. ENTER INDUSTRIAL CITIES

The Government opted for solutions that seemed then to be revolutionary by Egyptian standards. The Government decided to establish new communities in the heart of the many desert-like and arid lands that engulf the Nile valley. These were the first in a series of industrial cities, also known as industrial estates, although the latter definition relates more to those industrial zones which are normally part of an urban setting. Industrial cities in the Egyptian case are completely autonomous cities with all the needed facilities and infrastructure. Due to the enormous task undertaken by the Government in this regard, a Ministry in charge of New Communities and Utilities was created.

It should also be noted that the success stories of industrialisation in South-East Asia had always intrigued the decision makers in Egypt and the feeling nowadays is that it is Egypt’s turn, as an emerging market, to make it too.

Regarding the type and size of industries to be located in the new cities, the focus was on SMEs involved in food industries. However, few industries have grown to larger sizes due to their rapid success in capturing local and global markets. World and/or regional events have certainly contributed to that. A living example of this is the popular Food Processing Industry which was catapulted to sky-high levels following the Gulf war because it catered to the allied forces needs which proved to be quite profitable. Now that the Gulf war is over, this enterprise has already found a niche for its products in Europe and the Americas.

4. THE PILOT CASE
Following the signing of the Peace Accord with Israel, constructing new communities took off at a very fast rate. The first such industrial city was named the “10th of Ramadan City” after a date revered by the Egyptians because it commemorated the start of the movement for liberating the land occupied by Israel since 1967.

Selection of the site was based on the following fundamental rules that were religiously observed since then:
1. The site should be near urban centres to allow easy access to facilities;
2. The site should be at a crossroads to facilitate transport of the goods; and
3. The site should not be far from the normal residence of the workers.

These rules were followed when the sites of other cities such as the 6\textsuperscript{th} of October, Sadat, Al Obour, 15\textsuperscript{th} of May, Borg El Arab, Al Ameriya, Al Shurouk, etc., were selected.

One other compelling rule forced itself on the location of some of the newly-established industrial estates. This was due to the Government’s wish to strike a balance between development of the North of Egypt and its South. The development of the latter was long ignored for years resulting in dissatisfaction by the people there and some social unrest was inevitable which badly hurt the tourist industry, let alone the image of Egypt abroad. In addition to the South, focusing on the development of the Sinai Peninsula was a priority dictated by national security to create a developed buffer zone between Egypt and its neighbours.

5. THE INVESTMENT LAWS

The Government, desirous of encouraging entrepreneurs to venture in establishing new enterprises in the new cities, had enacted few investment laws that provided encouraging incentives. The most salient of these incentives are the income tax holiday of 10 years and the reduced import taxes on raw materials and semi-finished products. The grace period can reach up to 20 years for projects designed for arid land away from the traditional sites near the Nile Valley.

A flat rate of 5\% was assessed as customs and import duties on the value of imported capital assets used for setting up a project irrespective of the applicable customs rate. Capital repatriation was regulated in such a way that it can take place in five equal annual instalments.

Some industrial zones were designated as “Investment Free Zones”. These are considered as being located off-shore. Goods and materials imported into a free zone (except passenger cars) are not subject to import duties or customs regulations. Duties will be levied on such goods if they find their way to the local market. It is also permitted to have a partial free zone within a project to handle the export portion of the activity.
6. BUREAUCRACY STRIKES AGAIN

Despite all good intentions, bureaucracy that is built into the Egyptian system had found its way to the operation of the new industrial cities. For an entrepreneur to get approvals for any initiative, he would have to get 14 clearances in a never-ending pursuit from many authorities located at different locations in Cairo, where the Central Government operates, Alexandria, Suez, Ismailia, Port Said and Damietta Port Authorities, where the goods enter the country, and other cities. These authorities are working under different government agencies and there was always a conflict here and a lack of response there that frustrated the most optimistic entrepreneur.

Fortunately, that is all in the past now. The Government had solidified all the necessary clearances in one body called “The Agency for the Development of the 10th of Ramadan Industrial City”. This Agency has jurisdiction over every possible clearance and/or approval that would be needed by any entrepreneur. The same was done at all industrial cities/zones now totalling 19 and will be implemented in the 25 planned industrial zones.

7. ROLE OF OFFICIAL DEVELOPMENT ASSISTANCE

Egypt is one of the largest recipients of Official Development Assistance (ODA) among the developing countries. ODA is the cumulative assistance made available to Egypt through bilateral and multilateral development agencies. This was demonstrated during the Gulf war and peace talks in the Middle East. Disbursement of ODA is not entirely up to the choices made by the recipient authorities, Government or Private Sector; other factors do interfere.

The high level of ODA in Egypt is partly due to the politically balanced policy of the Government and its firm stand on the legal rights of every country. Although the volume of ODA in Egypt remains high today, funds are beginning to shrink and aid fatigue is not only threatening but also announced. Donors can only be as good as their recipients, so they are adamant that their funds be used properly. Donors’ assistance previously went for infrastructure, now donors tend more towards direct investment and insist on the human factor: democracy, human rights and participation. Sustainable human and social development is their current motto. Bilaterally, they want their pay-off, of course, in maximising benefits for their own countries. Nevertheless, there is some flexibility and recipients in Egypt still have room to negotiate, if they
have the technique! The following table gives the level of donors’ assistance to Egypt in the period 1990-95.

**Relative Contributions to Development Assistance by UN and Non-UN Sources in Egypt during the Period 1990-1995 (Million USD)**

<table>
<thead>
<tr>
<th>Field or Sector</th>
<th>Non-UN</th>
<th>UN</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>830</td>
<td>234</td>
<td>1064</td>
<td>14.3</td>
</tr>
<tr>
<td>Water &amp; Sanitation</td>
<td>1565</td>
<td>21</td>
<td>1586</td>
<td>21.3</td>
</tr>
<tr>
<td>Environment</td>
<td>143</td>
<td>61</td>
<td>204</td>
<td>2.7</td>
</tr>
<tr>
<td>Electricity &amp; Energy</td>
<td>1260</td>
<td>3</td>
<td>1263</td>
<td>16.9</td>
</tr>
<tr>
<td>WID</td>
<td>29</td>
<td>3</td>
<td>32</td>
<td>0.4</td>
</tr>
<tr>
<td>Industry</td>
<td>792</td>
<td></td>
<td>792</td>
<td>10.6</td>
</tr>
<tr>
<td>Economic Reform</td>
<td>763</td>
<td>18</td>
<td>781</td>
<td>10.5</td>
</tr>
<tr>
<td>Planning</td>
<td></td>
<td>11</td>
<td>11</td>
<td>0.1</td>
</tr>
<tr>
<td>HRD</td>
<td>552</td>
<td>8</td>
<td>560</td>
<td>7.5</td>
</tr>
<tr>
<td>Education</td>
<td>9</td>
<td>15</td>
<td>24</td>
<td>0.3</td>
</tr>
<tr>
<td>Health</td>
<td>92</td>
<td>43</td>
<td>135</td>
<td>1.8</td>
</tr>
<tr>
<td>Comm. Development.</td>
<td></td>
<td>16</td>
<td>16</td>
<td>0.2</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>64</td>
<td></td>
<td>64</td>
<td>0.9</td>
</tr>
<tr>
<td>Communications</td>
<td></td>
<td>3</td>
<td>3</td>
<td>0.0</td>
</tr>
<tr>
<td>Civil Aviation</td>
<td>32</td>
<td></td>
<td>32</td>
<td>0.4</td>
</tr>
<tr>
<td>Transport</td>
<td>212</td>
<td></td>
<td>212</td>
<td>2.8</td>
</tr>
<tr>
<td>NGOs</td>
<td>121</td>
<td></td>
<td>121</td>
<td>1.6</td>
</tr>
<tr>
<td>Tourism</td>
<td></td>
<td>2</td>
<td>2</td>
<td>0.0</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>375</td>
<td></td>
<td>375</td>
<td>5.0</td>
</tr>
<tr>
<td>Support Services</td>
<td>165</td>
<td>11</td>
<td>176</td>
<td>2.4</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>7006</strong></td>
<td><strong>446</strong></td>
<td><strong>7452</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>


One important feature of the major bilateral assistance to Egypt is that it still stresses agricultural, health and social activities. Little assistance goes to industry. One former Minister of Industry once said that the US Ambassador never set foot in his office. Therefore, the onus is on Egypt and the Egyptians to develop their industry without relying on ODA; particularly that some political pressure is being exerted these days as a condition for the continuation of ODA.

Naturally, most of the UN assistance in the industrial field is provided through the United Nations Industrial Development Organisation (UNIDO).
UNIDO has been active in Egypt since its creation in 1962 and is currently involved in environmental protection in industrial projects in Egypt.
8. DEVELOPMENT OF SMALL AND MEDIUM INDUSTRIES

The process of development of SMEs is a long-term process because the return on investment can be realised only through more and more practices. The method used by countries such as the Asian Tigers to establish industrial estates was not followed in Egypt in time, although all the indicators showed that it would have been successful. One reason for that was the mistaken belief that establishing an Industrial Development Bank in Egypt (IDB) was in itself enough to ensure the development of SMEs. In retrospect, there was actually no reason on the part of the Government to preclude utilising other sources of financing than the assistance given by IDB to develop industry.

The unsuccessful attempts at industrial development carried out in Egypt in the past have produced, nonetheless, three positive results:

1. The creation of experienced cadres of technical and administrative personnel;

2. The success of some regional industries, albeit on a smaller scale, so that particular regions became known for certain types of industries, e.g., office equipment, furniture and shoes in Damietta, rugs and carpets in Fouah (Kafr El Sheikh), ginning and weaving in Kafr El Dawwar and Mahalla El Kobra, silk weaving in Akhmeem and Pharaonic and Islamic artifacts in Khan El Khalili.

3. The lessons learned from the past negative experiences are still there to protect others from making the same mistakes again. One such lesson was that "putting out" small fires, or reacting to events, was not a good way to provide a “sustainable” solution for industrial development.

9. MORE DIFFICULTIES FACING SMEs IN EGYPT

It would be ridiculous to think that new laws would solve all the problems facing the successful establishment of SMEs in the country in general, and in the new industrial estates, in particular. The common factor is always the human being. One can only surmise that the poor show was due to either of these factors:

1. Intentional negligence on the part of those who handled the earlier industrialisation attempts; or
2. Inherent inefficiencies in all services and resources provided by the Government to help the industrialisation move.

Further scrutiny of the situation would reveal that there was a bit of both these two reasons. Corruption among personnel involved in the early attempts was obvious and the government was late in handling it. Furthermore, the inadequate services available then had contributed to further corruption because this corruption could have been detected had the system been watertight. What brought these corrupt actions finally to the surface was the limited number of successful projects which, if it had been larger, would have covered up for the failing policies of industrialisation then. The lack of adequate tools to help then can be attributed to:

1. Inadequate feasibility studies for many projects in addition to the poor performance of many consulting firms then;
2. Lack of data and information that would have helped these consulting firms in adequately evaluating the situation;
3. Poor marketing/marketability studies prior to embarking on many projects;
4. Inadequate banking and financial expertise;
5. Lack of information regarding the foreign partners that resulted in early conflicts and sometimes repatriation of most of the profits from Egypt;
6. The lack of proper maintenance and training of technicians; and
7. The absence of links between R&D centres and most of the industries.

10. THE NATIONAL AGENDA 21

The last five years have seen a radical change in the way things are done in Egypt. It finally dawned on the decision makers that without some non-conventional ways in handling the creeping economy, Egypt would sink down under, despite all the help provided by friendly nations. Environment became a big issue and the National Agenda 21 for Environment and Sustainable Development was elaborated. It spelled out the division of services to address:

1. The basic needs of the people such as:
2. The desirable needs such as:

- Higher standard of living through eradication of poverty;
- Ensuring enough reserves in natural resources for the use of the next generations;
- Establishing local industries to curtail imports and increase exports; and
- Maintaining peace and security in troubled areas of social unrest.

3. The evolving needs which stipulate that all the above should be done without harming the environment and with the provision of cutting edges so that Egypt may compete successfully in the global markets.

One of the important activities of Agenda 21 is building the national capacity to be able to implement it. One of the major fields is, of course, the industrial sector.

11. PLANNED INDUSTRIAL ZONES

The Government had therefore, and through its specialised agencies, mainly the General Organisation for Industrialisation (GOFI) and the General Agency for Investment (GAFI), made plans for the establishment of industrial zones, primarily within the new communities or industrial cities. The new Cabinet of Ministers had been charged by the President to do its utmost in order that the phrase “Made in Egypt” becomes a symbol of excellence.

Forty-four industrial zones are on the industrial map of Egypt (see attached maps), 19 of which are either fully established or still being developed and 25 are either under construction or still on the drawing board. The underlining principle is to have 300 industries per every 100,000 people. For this purpose, thirteen Industrial Chambers, each covering a group of related industries which are coordinated by the Federation of Egyptian Industries (FEI), have been formed and put on the alert to do whatever is necessary to reach that goal. These Chambers are:

1. Textile manufacturers;
2. Food industries;
3. Cereal and their products;
4. Chemical industries;
5. Metallurgical industries;
6. Engineering industries;
7. Building materials;
8. Petroleum and mining;
9. Wood working;
10. Printing, binding and paper products;
11. Leather industries;
12. Leather tanning and fur industries;

12. PRIVATISATION AND ROLE OF THE PRIVATE SECTOR

The privatisation process began in 1991 with the creation of holding companies for the 314 public sector enterprises, which at that time accounted for 70% of Egypt’s industry. A process of appraisal and valuation of these enterprises was launched, funded by various donors and carried out by international and national specialised firms, aiming at their outright sale. Until 1994, this was the only method used for privatisation. Presently, a variety of methods are being used. These include partial offerings, use of labour organisations, long-term management and lease contracts.

13. REVITALISING THE STOCK EXCHANGE

A new Capital Market Law was passed in 1992 with the aim of revitalising the Egyptian stock market, which had lain dormant for decades. It was envisaged that this would provide the necessary tool for the privatisation process, create an easier way in and out for foreign investors, and encourage small investors to venture into the capital market. It also attracted foreign investments and Egyptian savings from overseas, and the provision of custody services by leading international banks. In 1994, share prices rose by an average 40%. The market was further boosted by the offering of blocks of shares in public sector companies. In 1995, the first tranche of government bonds was offered.

14. THE SOCIAL FUND FOR DEVELOPMENT

The Social Fund for Development (SFD) was created in 1991 through donors’ assistance, the UNDP, the EC and the World Bank, to help resettle the returning workforce after the Gulf crisis and to reduce the impact of
privatisation and of the implementation of the Structural Adjustment Programme on the labour market and the poorest sections of the population. The SFD has many programmes, one of which deals with the development of small and medium enterprises. Under the Enterprise Development Programme, the SFD channels funds through NGOs which in turn lend small loans to willing entrepreneurs at concessional terms. One of these NGOs is the Egyptian Association for Development and Human Resources (EADHR) which deals with industrial incubators and small industries with emphasis on “high tech”.

15. CONCLUDING REMARKS

Egypt went through a trying period to arrive at the present situation where its economy has been experiencing a gradual, yet steady recovery, since it switched from a war-based economy to a developmental one. Having successfully controlled inflation which declined to less than 8% of GDP, achieved an overall growth rate of around 5%, brought the budget deficit down to less than 2% and foreign exchange reserves up to a record $18 billion, Egypt is now on the right track for economic growth. One essential factor was the introduction of the industrial city concept and removal of most of the obstacles to make the Egyptian industrial products competitive on the world markets. Still, the Government would really encourage further investment by entrepreneurs if it bore the cost of constructing the super highways between the industrial cities and the main junctions such as the capital, Cairo, and the main ports like Alexandria, Port Said, Suez and Damietta. Entrepreneurs have already accepted to bear the cost of infrastructure within the limits of each industrial city, but the rest should be the responsibility of the Government.

REFERENCES

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