INDUSTRIAL POLICIES IN THE A.R.E.(*)

Dr. FOUAD H. AWAD

Professor of Economics, Cairo University

I — The role of industrial policies in implementing development plans.

1 — In more than one respect the industrialization process in the A.R.E. which received a particularly strong impetus in the last decade, will be intensified in the future, and development patterns, different from those previously followed, may have to be worked out. Discussion of the requisites and probable implications attaching to those changes in industrialization patterns requires a thorough study of the lessons and experiences of past industrialization policies.

2 — Equally important is to view industrial development in the broader perspective of the social and cultural change that is concomitant with economic development. Industrial development is not simply the expansion of production capacity and of output of manufactured goods. Industrial development, in the strict sense of the term, is the means to building an «industrial society» characterized by the features commonly attributed to it : a rational organization of production, both in manufacturing and in other sectors of the economy, which in turn implies the intensive application of science and technology throughout the whole field of production of goods and services; an equally extensive participation of the population in consumption, so that the benefits of technical progress reach all social groups; and

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an «open» social stratification system, supported by modern methods of education capable of forming the necessary talent and equipping the whole population to understand and take part in the industrialization process.[1]

3 — The decision, taken in 1955[2] and embodied in the National Charter in 1962 — to organise systematic efforts aimed at ensuring the attainment of minimum growth targets for income, and to use planning as basic means to that end reflected a conscious awareness of that «total» treatment of development, sectoral or in aggregate. Before then provisions aimed at encouraging industrial growth through indirect incentives existed since 1930, the time when the foundation of modern industry in Egypt was actually laid, and, by the time the middle of this present century was giving way, a multiplicity of legal provisions and systems of what may very loosely be called industrial policy was already in existence.

4 — Two landmarks in the history of industrial development in the A.R.E. were the establishing of a separate Ministry of Industry in 1956 and the Industrial Organization Law of 1958. The First Five Years' Industrialization Programme—prepared in 1957 and later incorporated with the general plan of 1960-65 — was another important step towards the consolidation of industrial policy in this early period.

5 — The process of economic development in the A.R.E. was accompanied with significant organizational changes of a far reaching nature. With the rapid socialisation of the economy[3] a major portion of the industrial sector was transformed into state-owned enterprises. Consequently, it has been necessary to evolve new economic management techniques in order to improve the overall efficiency of the industrial sector. The evolution of the public sector in the industrial field, both in structural organization and managerial efficiency is a salient feature of Egyptian industrial policy in the nineteen sixties, while private-owned enterprises continue to play an important role in industrial activity. Industrial production during the sixties achieved an annual rate of growth — 10%[4] not yet matched by any other developing country; the corresponding rate for 1956-60 was slightly lower[5]. The general index of industrial production rose from 100 in 1959 to 276 in 1966.

6 — Industrial development in the A.R.E. — during the period covered by this paper, 1957 to 1968 — was carried in three stages : the First Industrialization Programme, 1957—June 1960; the First Five Years Plan, 1960/61 — 1964/65; and the Second Five Years Plan, 1965/66 — 1969/70. A list of projects, classified by major branches of industry, embodied in these three stages appears in table 2. The total cost[6] of these projects amounted to just under two and a half billion Egyptian Pounds. Gross fixed capital formation in industry during the period 1958-1967/68 was L.E. 772 million (table 3), against a total investment budget of over L.E. 2.5 billion. The weight given to industry is borne by the fact that investments in industry accounted for more than one-quarter of total investments throughout the period; in 1967/68 they stood — as indeed they had in the base year of the general plan — at 28.8 per cent. The sectoral distribution of gross domestic product was consequently altered in favour of industry, and the contribution of industrial income to gross domestic product rose from 19.9 to 22.6 per cent between 1959/60 and 1967/68.

7 — Industrial policy during this period, as formulated with the first industrialization programme, aimed at :

i) self-sufficiency through import substitution;
ii) expansion of industries with export market orientation;
iii) obtaining a balance between the development of basic[7] and consumers industries; and
iv) achieving an equitable regional distribution of industry in the country.

8 — These policy considerations were observed through later stages of industrial development. They were re-shaped and emphasised in the National Charter of 1962 with a few additions :

i) Heavy industries should have prior importance, without however jeopardizing consumers' industries expansion;
ii) Consumers' industries, with their great capacity for man-power absorption, also satisfy local consumption needs and provide in the immediate future a more attainable opportunity of reaching neighbouring export markets;

iii) Industrialization of the rural countryside reaches new dimensions for employment and accelerates the transfer to an indusurial society.

9 — The list of criteria that give a project a certain degree of priority on the plan was rather lengthy, but not always very clear. The list of the first industrialization programme enumerated, without order of preference, such conditions as : contribution to national income, local and foreign finance needs, rate of profit, increase in productive capacity of capital goods, contribution to the supply of consumption goods, savings of foreign exchange, the length of the gestation period, absorption of locally available factors of production such as raw materials and non-skilled labour, and national strategy. It is of particular significance that import substitution and export promotion do not appear explicitly on the list, although they do not fail to leave their finger prints wide and clear. The second industrialization programme was more decisive in coming out in favour of export promotion industries as a target, and in giving top priority to the non-defined-strategic factor and to «important basic industries. Two totally new conditions were also laid down : intertrial complementarity, and fundamental industrial location considerations.

10 — Egyptian industrial policy — as briefly outlined in the preceding paragraphs — has produced obvious achievements. In terms of gross production[8], industry has come to account for more than 40 per cent; it employs in 1967 68 no less than 11 per cent of the active population, and pays total industrial wages of 16 per cent on the average of the national wages and salaries bill (table 4). Domestic production now satisfies local demand for durable and non-durable consumer manufactures, and an appreciable contribution is now made to total supplies of intermediate products, building materials and production machinery and equipment. Considerable strides have also been made in the development of basic industries such as iron and steel chemicals and petrochemicals, machinery and transport equipment. Tables 5 - 6 give production figures for both the public and the private sector in the major branches of industry over the last few years.

11 — The growth of the various industries did not evolve evenly. Of the main manufacturing industries, the largest per-

centage gain in terms of production was scored by the chemical industry which has more than tripled from 1960 to 1968, thereby raising its share in total manufacturing production from 8.8 per cent to about 13 per cent in 1968. Engineering and electrical industries output also showed a remarkable growth over the sixties, rising in 1968 to two and a half times what it was in 1960. Its share in total manufacturing production increased from 14.5 to 17.2 per cent over the period. On the other hand, the cotton industry which accounted for about 41 per cent of manufacturing in 1960 has not shown enough resilience compared with the relatively younger industries and, consequently, its share dropped to under 36 per cent of manufacturing output in 1968(9).

12 — Table 6 also gives tentative figures of the share of each of the public and the private sector in the output of manufacturing industry. The socialisation measures, referred to above, have, with no doubt, reduced the contribution of the private sector. Nevertheless, the role played by it in industrial activity is still an important one. The following summary table reflects this.

Percentage share of the private sector in manufacturing industry

Sector	63/64	64/65	65/66	66/67	67/68
Spinning & Weaving	27.4	29.3	30.8	27.7	23.9
Foodstuffs	18.5	17.7	20.5	23.6	25.1
Chemicals	15.6	14.7	14.2	13.4	12.7
Metals	4.2	17.9	14.9	12.6	14.7
Engineering	22.0	22.3	23.8	24.1	25.6
Building	19.9	20.7	19.4	17.8	15.5
Wood	85.0	85.0	84.0	86.0	87.0

Source : Central Agency for Public Mobilisation and Statistics, quoted with minor changes — from the National Bank of Egypt : Economic Bulletin No. 4, 1969, p. 396.

13 — The increasing degree of industrial diversification noted above, which was brought about as a result of the new industrial policy of the sixties was not confined to the home market; it also reached and very fundamentally altered the

pattern of Egyptian exports. The percentage share of industrial products in total exports increased from 18.1 per cent in 1959 60 to 31.2 per cent in 1967 68 (table 7). At the same time while a relatively high rate of growth in exports of manufactures of 14 per cent per annum has been recorded for that period, experience of other developing countries [10] points to greater possibilities in that particular field. The fact that industrial growth has been of a type primarily based on the progressive incorporation of new lines of production, with the inference that specialization has not been a clearly-defined objective of industrialization policy, may account for that rate of performance. Whether a case exists for or against specialization in industry, the writer believes that with regard to exports there is much to be said in favour of specialization.

II — Description of the different industrial policies and measures used

1 — Protecting industry from foreign competition.

1 — It is hardly possible to quote from the history of economic thought a more commonly popular and widely used, and probably misused, notion as the «infant industry argument». Developing countries, and Egypt is no exception, have found it necessary to provide some degree of protection from foreign competition so as to permit the emergence of industrial activities that can build up in to a manufacturing sector. Important as it may be, no evaluation of the degree of protection over the years will be attempted. A study of the particular features of the measures and machinery of protection which played part in shaping the present structure of Egyptian industry seems more fruitful. In common with many other developing countries at similar stages of industrial development [11], some lines of action of certain basic instruments of industrial policy may have been determined by considerations and aims extraneous to industry itself. The protectionist policy followed by the A.R.E. may therefore have resulted from action which, either in addition to or instead of protectionism as such, have had other purposes, such as to increase public revenue or, in more recent years, to reduce balance of payments deficits.

2 — Industrial policy in the field of tariff protection passed through a number of stages. According to the predominant aim at each stage specific instruments have been emphasised while others neglected or played down. With the evolution of Egyptian industry over the past decades, the various instruments of protection and control have necessarily alternated or combined through most of these stages.

3 — The first stage began in 1930 when a new tariff system was adopted. It emphasised «the promotion of industrial production by providing a reasonable degree of protection especially for industries using local raw materials». Accordingly, a 15% ad-valorem duty on finished goods for average income consumers was imposed, against a 25 per cent and 30 per cent rate on luxury and extra-luxury goods respectively. On the other hand, the ad-valorem duty was reduced to 4 to 6 percent on imports of industrial raw materials and fuel, and to 8 per cent on imports of semi-manufactured goods used for local production.

4 — But between 1930 and 1950, the process of industrialization was relatively slow, and the structure of industry was basically characterised by the concentration on a small number of industries processing agricultural products, especially cotton. Only Bank Misr and its affiliated companies took the initiative in establishing large-scale industries. The reduction of external supplies during the Second World War strengthened these «infant» industries and encouraged the introduction of many new lines of industrial activity. With the restoration after the «War» of former foreign trade contacts these industries began to feel the onus of severe competition from abroad. The Egyptian Government was therefore obliged to raise, in 1948, duties on a number of imported manufactures to protect local industrial production. Further, imported raw materials for industry gained more preferential treatment in the form of lower import duties, while imported machinery and parts were exempted to encourage Egyptian industries carry out deferred plans for replacement and modernization of fixed capital.

5 — The change of 1948 had also other objectives of more general development nature, and of financial implications. The

reduction or complete abolishment of duties on imported raw materials and machinery was extended to cover fields of economic activity other than industry. Import duties on tobacco, liquor, tea, coffee, etc... aimed on the other hand at increasing public revenue.

6 — Another stage of industrial development in Egypt was marked by the setting-up of the National Production Council in 1952. The «Council» wasted no time in coming all and out in favour of more organized industrial development policy. Meanwhile preliminary studies led to a series of stop-gap enactments :

i) Imported raw materials for industry were finally exempted from customs duty;

ii) The drawback of customs duties and excise taxes on exported goods was regulated;

iii) Priority was given to the importation of machinery and equipment required for local industry.

For example, the import duty on natural rubber, previously fixed at L.E. 8.70 per ton was abolished while the ad-valorem duty was reduced from 3 to 1 per cent to encourage the — then-new tyre industry. Similarly, oilseed used in the manufacture of soap was exempt from import duties and the ad-valorem duty reduced from 8 to 1 per cent. To encourage the new industry of electric wires, the import duty on copper was abolished and the ad-valorem duty reduced from 8 to 3 per cent. To encourage the assembly of cars in Egypt, the additional ad-valorem duty on vehicles imported on loose parts, to be mounted up in a warehouse under the control of the Customs Administration, were reduced from 30 to 20 per cent. Moreover, import and ad-valorem duties on passenger cars, whether assembled or detached were reduced. Similar changes covered some other articles used in industry such as asbestos, aluminium tubes and pipes, etc.

7 — In the other direction, import duty on batteries was doubled and became L.E. 4 per 100 kg as a protective measure, while the ad-valorem duty on the detached parts of batteries was reduced from 8 to 3 per cent. Other protective measures included imposing a new additional ad-valorem duty on artificial

alimentary fats of 20 per cent and the doubling of the import duty on starch which became L.E. 1.50 per 100 kg. Import duties were also increased on some articles of which local production had become promising. They were raised from L.E. 2.0 to 2.50 per thousand on razor blades, and doubled on matches. Additional ad-valorem duties ranging between 40 and 50 per cent were imposed on silk, rayon and cotton fabrics mixed with other textile material(12).

8 — The above brief account of the history of the tariff rate and tariff policy in the A.R.E. leads to one obvious conclusion : the previous thirty years' amendments of the tariff rate rendered it a very complicated system. With the introduction of industrial planning in 1957 and comprehensive development planning in 1960, a completely new tariff system was required. This was imposed as from January 1st, 1962, and it had two principal features : it applies a unified proportional rate, and it treats imports in three groups of different industrialization process, with special reference to the capacity of local production of corresponding industries. These three groups of imports are raw materials, semi-manufactures, and finished goods. Finished goods produced locally received a proportional rate varying between 35 per cent for «essentials» and 100 per cent for «luxuries»; where no local production exists the rate is down to 10 and 15 per cent respectively. Semi-manufactured imports, for which local production capable of satisfying industrial needs exists, have a rate of 25 per cent for essentials and 50 per cent for luxuries; these are reduced to 5 and 10 per cent in case they are not locally produced. Finally a rate of 15 per cent or 35 per cent — as the case may be — is imposed on imported raw materials which can be, or are, produced locally; otherwise the rate is reduced to 1 per cent or 5 per cent respectively. Imports of coal were totally exempted because of the requirements of the newly established iron and steel industry(13).

9 — Tariff policy continued—through the nineteen sixties— to undergo changes, which in some instances were drastic. Revisions of policy decisions were not infrequent. Raising tariff rates on household appliances and private cars to 200 and 250 per cent, only to be reduced later are cases in point. Public revenue considerations may have played a role in the

later shift of policy. More important, however, is the fact that as the public sector is now the sole importer in the ARE, the tariff structure plays at present a very minor role in matters of broad economic policy.

10 — As was mentioned before, the protectionist policy, outlined above, was the result of a mixture of measures and instruments that were governed both by the strictly protectionist aim and by the need to obtain more revenue or to improve the balance of payments. Its real influence however was to create a climate of excessive protection for domestic industry on such a large scale that there was no pressure on the newly established branches of industry to improve productivity and efficiency.

11 — Furthermore, import substitution with the attraction it offers by way of minimum technical and capital needs was adopted as an industrialization strategy, at least in the first and second industrialization programmes (1957 - 1965), with the resultant sacrifice of productive efficiency and jeopardizing the establishment of a rational industrial base. Industry was necessarily directed therefore towards production lines related to the demand for final consumer goods, even though only the final processing stages were sometimes covered, at least in the initial period. It was not until the introduction of the third industrialization programme that an intensive type of growth in industry based on a more critical selection of alternative forms of industrial development was favoured to encourage increasing specialization and provide the foundation for a more self-supporting type of industrialization that would satisfy one of the most demanding requirements of development, namely an ever increasing volume of export manufactures.

2 — Financing industrial development

1 — In a broad sense, the problem of financing industrial development must be tackled as part of the more general problem of financing economic development, in which aggregate investment resources are taken into account and the share of manufacturing industry is weighed against those of the other sectors of the economy.

2 — Sources of finance of the industrial sector are either endogeneous to the sector — in the form of depreciation reserves and profit re-investment — or exogeneous. These in turn are either local funds through the stock market, and the banking system, or foreign, official or private or through international agencies. Foreign funds can — in turn — be either in the form of loans and credit facilities, or direct capital participation. A comprehensive coverage of all these sources of finance would be outside the prescribed scope of this paper; besides the meagre data and statistics available on the subject precludes any attempt of this scope.

3 — According to what is available of information on investments in industry during the 1950's, registered capital of industrial companies with head-offices in the A.R.E. — taken as a crude indicator of the development of industrial investments— increased from L.E. 46 million at the end of 1955 to L.E. 101 million at the end of 1959[14]. Net new investments during the 1950's amounted to L.E. 90 million out of which investments on expansion alone were L.E. 21 million. The bulk of these investments were in joint-stock companies (Table 8). The general trend over the period is also quite interesting : from L.E. 2 million in 1951 net new investments in industry increased to L.E. 19 million in 1959. At the same time, those for commerce and trade were at best stagnant, and while they amounted to more than three times as much as industrial investments in 1951, they went down in 1959 to as low as 27 per cent, (table 9).

4 — Since 1959, the Government has been the main founder of new industrial projects, which came under the First Five Years' Industrialisation Programme of 1957 and later embodied in the Development Plan of 1960 - 69. Since the inception of that «Programme» and until the end of June 1970 public investments in industry totalled L.E. 945.3 million, i.e. more than ten times as much what was invested in industry during the corresponding period of the nineteen fifties.

5 — The contribution of the Government to industrial finance was not, however, confined to the participation in new enterprises. The analysis of the Public Budget — taken up in a later section of this paper — will show that about 20 per cent of total current public expenditure is devoted to industry.

6 — To finance the foreign currency needs of industrial development the Government concluded a number of economic and technical agreements with foreign countries, particularly with the Soviet Union. In January 1958 a loan of 700 million roubles was contracted to finance imports of the first - later on also the second — industrialization programme; in September 1964 another loan of 300 million roubles was agreed upon for the benefit of the third industrialization programme. Countries like the Federal Republic of Germany, Japan, Spain, France, the Netherlands, the Democratic Republic of Germany, China, and others also provided loans and credit facilities, which totalled during the whole period some L.E. 370 million.

7 — The part played by the banking system in the financing of industry is different both in character and in magnitude. Incentives in this field may be derived both from general provisions governing the allocation of bank credit and from the establishment of public bodies — such as industrial banks — for the special purpose of offering industry more credit on better terms.

8 — In order to assess the share of total bank credit that has fallen to manufacturing industry, the over-all contribution that bank credit resources have made to the economic development of Egypt as a whole must first be borne in mind. During the period 1960 - 1970 the percentage relations between bank credit and the gross national product depicted no definite upward trend, and fluctuated narrowly around 20 per cent. Within the general framework of this almost stable ratio of bank credit, the position with regard to credit facilities specifically channelled towards the industrial sector shows a steady rising trend from 37 per cent of total bank credit at the end of 1960 to 46 per cent at the end of 1966. For seasonality implications the June figures are also shown in Table 10; they offer almost the same result. An ever increasing share of commercial bank credit has been directed to finance industrial development.

9 — Now, has the rate of increase of industrial bank credit been in line with the fast rise in investments and the rapid expansion of production in the industrial sector ? The following table shows that indices of industrial bank credit have always been above those for industrial production. In other words, current industrial production was getting an ever increasing

volume, both relatively and absolutely, of bank credit to finance its operations.

Indices of gross investments, production and bank credit in industry

	Investment	Production	Bank credit
1959/60	100	100	100
60/61	138	106	110
61/62	102	110	128
62/63	165	126	154
63/64	214	138	147
64/65	204	149	167
65/66	206	163	189
66/67	200	169	197

10 — Not less relevant are the terms on which bank credit is generally offered. Long-term credit has traditionally constituted a low proportion of total commercial bank credit. The Industrial Bank was established in 1948, and commenced operations in October 1949 to supply medium — and long-term loans to industry. Its statutory purpose was to «develop Egyptian industry and handle banking business pertaining to it, and, in specific, to :

i) Participate in establishing and assisting Egyptian industrial establishments;

ii) Provide Egyptian industry with raw materials or basic equipment;

iii) Lend on short-term for a maximum of twelve months, on medium-term for no more than ten years, and on long-term for no more than twenty years for the purpose of setting-up new industries or new branches thereof».

1 — The Industrial Bank underwent since it was established several changes both in its lending policy and lending operations, while at the same time, its lending resources were tremendously

increased. In successive steps, the upper limit set for the Bank to borrow from the Government, or be guaranteed by it, was raised to reach L.E. 10 million. The Bank's lending operations were necessarily very modest in the early phase of its evolution when up to the end of 1953 its total loans to industry had not reached L.E. 2 million. During this period, large loans of L.E. 50,000 or more took up nearly half its industrial credit, while short-term loans of up to one year constituted also just under 50 per cent of the total. This trend of favouring short-term loans continued until 1965 when these amounted to over 75 per cent, (Table 11). Before that time, however, as far back as 1958 — a large number of enterprises were permitted to borrow short for one year renewable up to ten years, which meant that a large part of these loans in fact belonged to the category of long-term loans. Table 12 gives the de facto distribution of annual (paid out) bank loans. Long-term loans have obviously been getting the lion's share of the Industrial Bank activity during the nineteen sixties. But if the Bank had shifted to «long-term» loans, it had also been going «large» ever since it began operations. Large loans of L.E. 100,000 or more have nearly always accounted for over 70 per cent. One important exception is the year 1967 68, when the percentage share of this group of loans was markedly reduced. But this year seems to be a year of exceptions. Several noticeable shifts took place which are worth mentioning : a change in favour of medium-term, medium-size, and private sector loans (tables 12, 13). The change may be a reflection of the new policy of the Government of lending more support to the private sector (see section III below), which would be expected to borrow smaller size loans for a relatively shorter period. Finally, table 13 shows also that the non-traditional branches of industry, such as chemicals and engineering products, were getting increasing assistance from the «Bank» in place of the traditional industry — namely spinning and weaving.

12 — The Industrial Bank played another role that was of prime importance during the period preceding the era of industrialization by planning. The Bank participated in a number of industrial establishments among which were the Organic Fertilisers, Iron and Steel, Ceramic and Porcelain, Chemical Industries (KIMA), Egyptian Engineering and Car Co., and several others.

13 — Financing of small business is one of the major problems facing small enterprises in the field of industry. This is mainly due to the fact that normal credit terms are often too burdensome for them because of high rate of interest and commissions charged, and because of their inability to provide the security (collateral) necessary. The Central Bank of Egypt took a decision early in 1968 to exempt loans of craftsmen and small industrialists from the statutory minimum of 6 per cent interest rate, and the Industrial Bank was therefore able to lend to this category at a rate of interest as relatively low as 3.5 per cent. Furthermore, the standing commission of $^1/_4$ per cent on banking services was also waived for them(17). Quantitatively, however, the volume of loans that the Industrial Bank extended to small industries was not very impressive.

14 — In 1958 a fund for the promotion of rural industries was established with the objective of offering grants non-repayable to some rural industries as well as loans to industrial corporations, but the project failed because of its meagre resources. Again, in 1961, the «Co-operative Credit Fund» was established, and affiliated to the «General Egyptian Organization for Co-operative Production and Small Industries» to exercise banking activities related to producers cooperatives. But the «Fund» was again quickly exhausted.

15 — The National Bank of Egypt has also extended assistance during the sixties to finance small industries. A sum of L.E. 100,000 was earmarked to advance loans to small industrialists and artisans on special terms deemed compatible with the nature of the business of the small industries. Moreover, loan charges were reduced and easy repayment terms laid down to avoid over-burdening the small borrowers. This was termed the «Small Loans Scheme». It was applied to craftsmen defined as persons undertaking industrial production where labour rather than capital was the main factor of production. It also applies to small factories with capital not exceeding L.E. 5000. Small loans are advanced for both fixed and working capital. The volume of operations of the National Bank of Egypt according to this scheme is shown in Table 14. The average volume of loans, which is around L.E. 500, leads to the conclusion that the Bank's policy of extending assistance to small industries has again been quite conservative.

3 — Fiscal policy and industrial investment

1 — In addition to the general incentives deriving from protectionist policy and from other measures designed to encourage the installation and expansion of industry, as outlined in the preceding sections, direct industrial investment by the State has gradually taken the lead in promoting industrial development. The Ministry of Industry was thus established in July 1956 with the main objective of «drawing-up a well-defined industrialization plan and supervising its execution». Further, in 1958 a law was passed for the purpose of «regulating and encouraging» industry[10], which law stipulates that :

i) No industrial establishment shall be set-up, expanded or have its production line or location modified without the prior consent of the Minister of Industry, and with due regard to the national economic needs, requirements of local consumption and exports, and within the economic and social plans of the State;

ii) Directors of industrial establishments are to provide the Ministry with all data and information that it may require regarding their field of activity;

iii) No industrial establishment active in basic industries or enjoying a monopoly shall cease production or reduce it beyond the set limits without prior reference to the Ministry;

iv) All existing industrial establishments — falling into one of the categories designated by the Minister — shall apply for registration at the Ministry within three months.

2 — The second element of organisational control over industry — embodied in the above-mentioned law — appears in the powers given to the Ministry to fix uniform standards to be applied in production, and to define the specifications of products and raw materials employed. An Egyptian product is defined as the product in which the proportion of the value added by industry in Egypt is not less than 25 per cent of final cost. Further, to encourage industry, the Ministry shall provide industrialists with necessary information, offer grants for research work, and take part in creating training centres and other bodies for design and specifications.

3 — To foster industry a levy not exceeding 6 per cent — raised in 1962 to 10 per cent — of the cost of raw materials or total wage bill of the preceding financial year would be imposed on industrial establishments for the stated purpose of industrial development.

4 — The above legislation coincided — not un-intentionally — with a striking change not only in the place of industry in general economic development, but also and more specifically in industrial policy. The reliance of industrial policy upon indirect instruments alone had not succeeded in laying the foundations of modern industry in Egypt. Industrial activity before 1952 was limited to some lines of production which originated during the conditions of the post-'Depression' and post-Second World War periods, and which were largely based on the processing of agricultural raw materials. Investment in industry in 1952 was approximately 12 per cent of total gross investment, and the contribution of the industrial sector to national income did not exceed some 10 per cent in the same year(17). As a result of the sporadic measures taken by the Government in the early fifties — the setting-up of the National Production Council, the consolidation of the Industrial Bank, etc. ... — there has been a steady increase in private and public investments in different branches of industrial activity : oil, mining, iron and steel, textiles, fertilizers and chemical industries.

5 — Since 1958, the Government has taken a more positive role in forming industrial projects — first under the pioneer industrialization programme of 1957, later within the comprehensive development plans. Thus, reliance upon indirect instruments alone had given way to active and deliberate participation in raising new state-owned industries and maintaining them as such. As a general rule it can be said that the strengthening of this type of state action has stemmed from the broader objective of intensifying government incentives to overall economic development, but there is no doubt that it has been a direct result of a definite intention to speed up the industrialization process. This is borne out by the fact that the first State enterprises to be set-up on a large scale were in implementation of the first industrialization programme of 1957, and that the first overall development plan, with investments over-whelmingly in the public sector, did not come out but three years later.

6 — By the time the first comprehensive plan was launched on July 1st 1960, the decade of the fifties had witnessed a spectacular increase in industrial production, which raised its contribution in gross national product to almost 20 per cent by the end of that decade. The rate of increase of industrial production was accelerated during the nineteen sixties, to an average of 16 per cent per annum, except perhaps for the last three years of war-mobilization. The contribution of the industrial sector rose to 23 per cent of G.N.P. in 1969 (Table 3).

7 — The direct contribution of the State to industrial finance, in the form of new investments in industrialization programmes(1) totalled L.E. 83 million between December 1957 and June 1960, L.E. 516.5 million between July 1960 and June 1965, and L.E. 507.2 million between July 1965 and June 1970. In relation to total development spending these figures represent over one-fourth of realized gross capital formation during the period. The relation for plan figures is even much higher : 44 per cent in 1960 - 1965 and 48 per cent in 1965 - 70 (Table 1).

8 — The contribution of the Government to industrial finance was not, however, confined to the participation in new enterprises. The analysis of the Public Budget over the two periods 1950 - 60 and 1960 - 1970 shows that a considerable share of the increase in public expenditure has been allocated to industry. Public expenditure on development projects during the first period totalled L.E. 613 million, out of which L.E. 184 million was allocated to industry. At the same time, current expenditure by the Government for the running of projects in the field of industry and electricity (including operating costs of Public Organizations and Public Authorities) amounted to L.E. 257 million out of a total current public expenditure of L.E. 2443 million. During the second period, 1960-1970, development public expenditure allocated to industry totalled L.E. 1611 million out of a total development allocation of L.E. 3410 million, while current public expenditure allocated to industry amounted to L.E. 1148 million out of a total of L.E. 8729 million, (Table 1). In other words, against a 14 per cent of overall public expenditure allocated to industry during the fifties, a 23 per cent has been allocated in the sixties. The increase over the years is perhaps more revealing : from 7.5% in 1950 51 it reached 24% in 1969 70.

9 — The establishment and operation of industrial enterprises both in the public and the private sector were affected by other fiscal policy measures. In 1961, the Companies Law (No. 261/1954) was amended to allow the Government to raise sufficient funds for the finance of general economic development. Accordingly 5 per cent of net profits for distribution of joint-stock companies, limited partnership by shares companies and limited liability companies would be appropriated for the purchase of Government bonds. Furthermore, in 1967 several enactments affecting the distribution of profits[19] stipulated that, besides the allocation of this first 5 per cent :

i) a further 5 per cent of the net profits, for distribution of all joint-stock companies will be credited to «the legal reserve account» :

ii) another 5 percent — in the case of public sector companies — will be allocated to «the reserve for the rise in prices of fixed assets» :

iii) 10 per cent of 'net' profits of public sector companies available for distribution (after above deductions) will be allocated to «the consolidation fund» if the company's liquid assets fell short of its short-term liabilities[20];

iv) 5 per cent of paid-up capital will be allocated as a first distribution to shareholders and labour ;

v) 10 per cent of the remaining profits would be set aside for directors' remuneration to cover managerial and administrative expenses. In the case of private sector enterprises this represents an actual distribution, while for public sector enterprises it is transferred to the corresponding Public Organization ;

vi) the balance of profits would further be distributed among shareholders and labour.

10 — The allocation under sub-paragraph 9ii governs public sector companies which are subject to the newly applied «uniform system of accounts». In that system, the shortcomings of the historical cost basis for calculating depreciation was acknowledged. To rectify it, while retaining the historical cost basis in formulating the «profit and loss account», funds would be earmarked — in the appropriation account — to meet the probable rise in prices of fixed assets.

11 — Distribution of profits to shareholders and labour (sub-paragraphs 9iv, vi) in public sector enterprises is again governed by specific legislation whereby 75 per cent of it represents the State - i.e. Ministry of the Treasury - (in lieu of shareholders) share, 5 per cent finances social and housing services for labour, 10 per cent is pooled for central social services for the district (to benefit labour), and 10 per cent represents direct cash distribution to labour.

12 — The above legislation was meant to regulate and encourage, among others, modernization and expansion schemes of public sector companies. Incentives for new industrial investment existed before the public sector came to dominate the industrial field. New industrial investment was exempted in 1953 from taxes for the purpose of development of the national economy. The exemption would last for seven years for new ventures and five years for expansions.

13 — It has also been pointed out before that import duty concessions and exemptions have been used to modify the tariff structure for imposts. An illustration is the change introduced in 1955 when the import and ad-valorem duties were reduced on some articles needed for the promotion of certain local industries, and removed altogether on others (raw materials for tyres and machinery for the cinema industry). Iron wares imported for the new iron and steel plant were totally exempted from import duties for three years. Again, when the 7 per cent ad-valorem duty was imposed in 1955 on imports for public revenue purposes, it discriminated in favour of raw materials, equipment and machinery required for development (industrial included) purposes, and also goods imported for re-export.

14 — Further fiscal incentives to industry took the form - - originally embodied in the taxation law No. 14 1939 — of allowing the accumulation over a period of years of profits and losses to maximize the benefit of tax concessions. On the other hand no favourite fiscal treatment exists for modernization, expansion, or new investment in particular areas of industrial activity. Besides, the business profits tax seems to be rather excessive, amounting to almost 37 per cent :

17% as business profits tax ;
10% of the original tax for local administration ;

10.5% Defence tax.

8 % tax for national security.

Tax relief amounts to L.E. 150-250, and is removed if profits reach twice the corresponding tax limit. Business profits tax, for projects other than joint-stock companies, is paid on the share of each partner in the profits of the business, while it is paid in joint-stock companies after dividend distribution.

4 — **Other forms of incentive measures** (covers also 6 - 9)

1 — The foregoing review of general industrial development measures and direct state promotional and enterpreneurial activites suggests that a very substantial proportion of the efforts made had been directed towards encouraging the installation of new industrial activities. Equally important however was the action taken to secure the necessary improvement in the productivity and efficiency of existing enterprises, to provide pre-investment services in the stage of project formulation, to entice foreign capital participation and to promote industrial exports.

2 — Pre-investment services are provided by the Ministry of Industry and the Industrial Bank. According to Law 21,' 1958 the Ministry of Industry is expected to provide industrialists with necessary information, offer grants for research work, and take part in creating training centres and other bodies for design and specifications. The Ministry's advice must be sought by those concerned when drawing up a policy for industrial financing. The same law allows public authorities to dispose of land for industrial buildings on easy terms and assist such buildings. The Industrial Bank, in its turn, takes part in preparing feasibility studies for industrial projects in the private sector.

3 — Foreign investment was also encouraged to take an increasing role in the development of industry. Minimum share of Egyptian capital in joint-stock companies was reduced from 51 to 49 per cent ; the right to transfer profits abroad, and to repatriate capital on five annual instalments after five years of investment was guaranteed. Foreign capital profiting from these provisions was defined as that employed in economic development projects[21].

4 — It was also specified in the same law that foreign experts and foremen selected from abroad to work on economic development projects may transfer abroad a portion (not exceeding one-half) of their wages, salaries and gratuities.

5 — In the field of technical assistance and technological research the Government has assumed greater responsibility. During the fifties, a «Permanent Council for Industrial Training and Efficiency» was created to study the needs of different industries for training, to supervise experiments made in this field by Government Departments and private institutions, to recommend training methods and to encourage training at private institutions through subsidies and technical assistance. Soon after, vocational and administrative training gained new dimensions. The Institute of Public Administration and the National Institute of Management Development were established, and subsequently, an Executive Conference Programme — for the development of top executives' managerial leadership — was begun. A Central Agency for Training was also set-up. Meanwhile, the system of in-service training has also been getting popular. State enterprises and some of the leading private firms have helped to build up the supply of technicians, especially in specific branches of industry, by training their own workers.

6 — The standardization of industrial products and processes was also introduced. In 1957 a Public Authority for standardization was set-up to provide standard specifications of industrial raw materials and products, and coordinate these with international specifications.

7 — To encourage industrial exports, which were regarded as the major source of foreign exchange revenues, State promotion and assistance extended in various directions. Export subsidies were introduced in the form of grants-in-aid to a number of industries. The «Cotton Spinning and Weaving Industry Assistance Fund» was formed in 1953 following the crisis the industry faced after the Second World War when inventory accumulation had reached such levels that the Government found itself obliged to step in and extend to the industry a grant of half-a-million pounds to encourage redirecting part of these inventories to export markets. The «Fund» was to

be managed by the Federation of Industries «to assist the disposal of cotton yarn and fabrics locally and on foreign markets. The «Fund» may grant loans to factories to enable them to gear their production to export requirements». These grants were termed «export differentials» and meant to cover the higher cost of local raw material used, and also the relatively high production cost. In 1967 68, it was decided — as a further measure to promote exports to hard currency countries — to grant exports to these areas an additional premium of 20 per cent of the value of exports (f.o.b.).

8 — Similarly, the «Assistance Fund for the rayon industry was set up within the Federation of Industries in 1957. It also had the purpose of "promoting the disposal of synthetic yarn and fabrics on local and foreign markets". The management of the Fund was to lay down the policy for «activating exports».

9 — Industrial exports are also accorded prime importance by the Industrial Bank, and, in this respect, the Bank has more recently taken a decision to establish an industrial compound — on the lines of industrial estates — for the benefit of small industries. Its 1967/68 Report[38] emphasises the encouragement given by the Bank towards industrial exports of leather goods, furniture, textile fabrics, through giving easy credit facilities to finance the production of these goods.

III— Brief evaluation of the package of industrial policies used

1 — An attempt to evaluate the industrial policy pursued in the A.R.E. up to the mid-fifties shows that although it has made valuable contributions, it has lacked cohesion and continuity. This first phase of industrial policy witnessed un-coordinated and often contradictory measures in terms of their possible impact on industry. While industry, for example, was subject in this early period to often excessive tax rates, agriculture and residential construction investment was either exempt or tax-favoured. Industry faced — at the time — a number of problems which were either neglected or overlooked :

i) absence of secure and permanent sources of finance ;
ii) dependence on extensive protectionist policies kept costs above standard levels ;
iii) modern techniques of production were often neglected.

2 — Planned industrial development, as evolved in the ARE in the late fifties and modified during the sixties helped to ensure that industrial policy maintain a degree of self-consistency conducive to increased efficacy of State industrial activities while providing through the planning machinery itself an active role for the private sector to play in the formulation and periodic revision of the policy in question. Effective industrial planning was, during the later phases of industrialization, the framework within which a proper industrial policy could evolve.

3 — While the role played by the State in industry in the forties and early fifties took the form of «promotional» participation in some industries, it has, since 1957, emerged as almost the sole industrial entrepreneur on a large scale ; hence the rise in the share of industry in total Government expenditure (current and development) from 7.5 per cent in 1950 51 to 24 per cent in 1969/70.

4 — Prior to the First Five-Years Industrialization Programme of 1957, it could be said in general terms that the public sector proper was not yet in existence. Government industrial policy was therefore directed mainly towards encouraging private capital to participate in new ventures, and to carry on modernization and expansion of existing capital; hence the nature of the varied legislation of that period, reviewed above. Following that line of policy, the National Production Council was empowered, in 1953, to :

i) examine and recommend projects of development in all fields of economic activity ;

ii) finance projects directly through public appropriations ,

iii) issue bonds with Government guarantees ;

iv) participate in the formation of joint-stock companies, and secure government guarantees for an annual return on paid-up capital as well as some fiscal privileges.

5 — At the same time the private sector was being encouraged by several direct and indirect means, fiscal policy was being developed in the later sixties towards giving more financial autonomy to public corporations. The «services» budget of the Government was separated from the «works» budget and the

losses of the publicly owned enterprises would no longer automatically be subsidised as a result. Under the old system profits made by public sector plants had gone straight back to the Treasury, which had also made good their losses. Now, enterprises would be expected to finance operations and, to a large extent, development from their own profits, and by recourse to the banking system[23].

6 — The banking system was re-organized into five big banks to serve — each of them — a particular branch or branches of economic activity. The private sector, while being also able to refer to commercial banks for finance, was being served particularly by the Industrial Bank.

7 — Legislation for the broader objective of financing development projects was also enacted in 1969, whereby an ad-valorem duty of 10 per cent of the value of all imports — except some food stuffs — was imposed for the benefit of the Ministry of the Treasury.

8 — State effort, since industrial planning was introduced, has been channelled in the direction of relatively substantial investment, in absolute terms, and entailing in the conditions prevalent in the A.R.E. at the time, relatively greater risks. In this sense, the role of State enterprise in industry has not been to compete with private capital, but rather to meet the growth requirements of the industrial sector which private enterprise was not in a position to serve, either because of the aggregate amount of resources needed, or because of the risks involved Thus, the iron and steel industry, during the fifties, and others in subsequent years such as the car industry, household appliances, etc came into being as public enterprises, benefiting by resources that could be drawn upon only through State channels.

9 — Although industrial policies described above had the objective of industrial promotion both in the public and the private sectors, they were nevertheless an integrated part of the overall general national economic policies. It is true that the tariff structure underwent several and in some cases un-coordinated modifications designed to take account of the industrial sector's needs; but it has also been an important source of budget revenue for the purpose of financing development projects

in general. However, the development of the public sector, which has fundamentally changed the structure and pattern of Egyptian economy, has also altered the role of the tariff structure therein as a source of public revenue, and a measure of protecting local industry. Customs duties still compose a principal source of revenue, but their relative importance has slightly declined owing to their slow rise in comparison to the rapid rise in other items of public revenue. The protective function of the tariff has also — probably more definitely - declined in importance, as the public sector is now the sole importer, and its import policy is designed to conform with the comprehensive development plan, hence the trend, effected in January 1962 of imposing a unified tariff rate proportional to the value of imports, except in a very limited number of cases such as tobacco. The unified rate replaced the four old types of customs duties: the fixed duty on imports, the proportional duty, the additional proportional duty and the "dock-dues".(24)

10 — State promotion in the field of industrial exports reflects a conscious commitment to increase foreign exchange resources through industry, but the form of industrial policy followed in the earlier periods seems to have jeopardized efforts towards this objective. The « extentive » type of industrial growth, generally employed in theA.R.E. until recently, made it difficult to combine import substitution with the introduction and expansion of a substantial flow of exports of manufactures. It will be argued, in a later section, that this very type of industrial growth is also responsible for the difficulties that stand in the way of industrial integration of the Arab countries.

11 — Closely related to this consideration is the question of how far industrial policy has been directed towards the individual domestic market, as compared with regional integration and the world market for manufactured products. It is obviously important to take advantage of every new opportunity that might arise to accelerate the growth of manufacturing industry, but the pattern of industrial policy which existed at a time when conditions were favourable to a strategy of extensive industrial policy based on import substitution need not continue to be the proper policy for opening up industry to external markets and of following, let alone leading, the changing pattern of world

trade in manufactures. Only quite recently — in preparing the guide-lines for the third industrial plan 1970 to 75 — has the development of production techniques in line with technological progress, particularly in the field of packing and wrapping of finished products been emphasised for purposes of competing on foreign markets.

12 — Industrial policy has also and quite oftenly included a number of insufficiently related measures or been expressed in terms of frequently not clear-cut objectives. The latest policy directives for industrial development in the 1970's rationalises the greater emphasis laid on capital goods in terms of at least three considerations : local production possibilities, mitigation of foreign exchange scarcity, and improvement in the strategy of industrialization.

13 — The optimum size of the firm was often overlooked in favour of self-sufficiency and in face of the temptation of easy industrialization through import substitution. Combined with a policy of protection from foreign competition that did not adopt a longer-term objective of overall national perspective, it encouraged high-cost production and excessive profits. Competitiveness on export markets was either impossible or required financial aid from public funds. Selectivity does not appear to have been pursued as yet on properly valued economic grounds. It is therefore of particular significance that industrial policy is now being re-shaped in favour of giving priority to raising already existing units to their optimum production levels.

14 — Economic and social aspects of industrial location, while taken into consideration in policy declarations, do not seem to have in effect been put to task. The three Governorates of Cairo, Giza and Kalyoubia, which could be considered as forming one huge industrial estate, still monopolize 42 per cent of total industrial investments in 1970. Together with Alexandria they combine about two-thirds of these investments. In other words, the past industrial development did not contribute to the integration of the internal economy, nor did it yet reduce very much the serious disequilibrium in the development of the component regions, or the disparity between their production and consumption capacities.

IV — Machinery used to formulate, and problems experienced in implementing, industrial policies and measures

1 — The brief outline of the preceding sections suggests that throughout a whole phase culminating in the late forties, the encouragement given to industry was chiefly confined to protectionist expedients. Thenceforth, the State undertook direct promotional activities which did not bear much fruit until the State stepped in as the major industrial entrepreneur with the inception of the first industrialisation programme in 1957, embodied later in the overall national plan.

2 — The Industrial Bank which started operations in October 1949 had taken eight years of study to come into being, and with a capital of L.E. 1.5 million— 51% of which was State participated, was not able to extend industrial credit facilities of more than L.E. 1.5 million until the end of 1952; a single long-term loan of L.E. 37000 was contracted. The Bank also participated in only industrial project to the extent of L.E. 50.000.

3 — With the setting-up of the National Production Council in 1952 a series of measures, discussed in more detail in earlier parts of this paper, were taken to promote industrial development in general, and certain branches of industrial activity in particular :

i) exempting in 1952 imported industrial raw materials from all customs duties and other excise taxes;

ii) exemption in 1953 from taxes new investment in the fields of industry, mining, power[24] Tax exemption included both the business profits and dividend taxes, and extended over seven years for new ventures or five years for expansions;[25]

iii) measures to consolidate individual industries such as the cotton spinning and weaving industry, the «Assistance Fund» for the artificial silk industry, the regulation of the manufacture and trade of the wollen and knitting products, the setting-up of a public authority for iron and steel, and for pharmaceutical products;

iv) raising the financial resources of the Industrial Bank in successive steps through State guarantees (see above);

v) State guarantees of a minimum rate of return on capital of some projects such as the iron and steel, and encouraging the Industrial Bank to participate by reducing interest on borrowed funds for that purpose to 1 per cent, which could even be cut in half or waived altogether in case the Bank's profits fell short of 4½ per cent.

4 — Soon afterwards, a number of public institutions were set-up for the purpose of regulating the organizational structure of industry :

i) the «General Organization for Fostering Industry» which shall improve the standard production and cooperate with those responsible for the financing of enterprises;

ii) the «Federation of industries» which shall look after the common interests of industrialists, coordinate and supervise the activities of industrial chambers and local industrial councils, help the Government in the formulation and execution of industrial policy, and give its opinion on legislation and regulations relating to industry;

iii) the «Industrial chambers» which shall look after their members' common interests, and be their representatives with public authorities whom they assist in developing industry.

iv) the «Local Industrial Councils» which shall look after local interests and put forward to the Minister of Industry proposals that may help in planning industrial development in their province. Each industrial establishment of a capital of L.E. 5000 or more, or employing at least 25 workers was to be affiliated to the Chamber of its corresponding industry or industries(37).

5 — While the legislation concerning the Federation of Industries and the Chambers of Industry had an essentially organizational character, and laid down the foundation of joint consultation and cooperation between industry in the organized private sector and the public sector, that of the General Organization for Fostering Industry had a wider scope in the field of industrial development through research and training. Thus the Presidential Decree setting up that Organization entrusted it with :

i) work towards raising productive levels of industry in general through vocational training, scientific research, and lowering costs of production including aid-granting; and

ii) cooperation with competent authorities in lending and financing industrial establishments.

6 — About the same time a consultative body was established as the «Consultative Council for Industry» and had on its board representatives of various authorities and institutions working in the industrial field. The Federation of Industries and the Industrial Bank were, for example, represented as were the Ministries of the Treasury, Commerce, Economy etc. Individuals representing practical expertise were also included.

7 — In April 1967 an important milestone was laid down in the way of organizational structure of industry by Presidential Decree No. 1055 1967 which re-organized the «Public Authority for Industrialization»[2] Besides the high level—later reduced to direct subordination to the Minister of Industry — and wide scope representation on its board, the «Authority» had sweeping powers in the field of industry. For example, no industrial project is to be considered in the overall plan except after the consent of the «Authority» is obtained.

8 — Again, in 1968 a committee was formed by virtue of a Ministerial order to look into requests for setting-up new industrial enterprises, or expansion or modification of existing lines of production. Wide representation of all industrial interests was also observed in its formulation.

9 — Inter-departmental and inter-Ministerial Committees and boards exist at several levels. More important among these are perhaps two sets of groupings : joint committees for the Ministry of Planning purposes and «foreign trade» boards for the Ministry of Economy purposes. The former joint committees — for the industrial sector — scrutinize the industrial plan as laid down by the Ministry of Industry, while the latter group of boards set up the foreign trade plan for each commodity. The joint committees within the Ministry of Planning — which were formed in the early period of development planning — seem however to have ceased to operate. The Ministry of Industry assumes full control of plan formulation in the industrial sector Individual plans — on the enterprise level — are collected and scrutinized by the corresponding public organization, which in turn passes a coordinated programme of further investment for

its branch of activity to the Ministry of Industry. Private sector industrialists apply for investment license to the Ministry of Industry. Finally, the Public Authority for Industrialization produces the integrated plan for the industrial sector, which is then incorporated by the Ministry of Planning with other sectoral plans into the national plan.

10 — Consequently, the industrial activities undertaken are often the product of a mere process of aggregation. Several public bodies, concerned with the formulation and application of industrial policy, still exert an indirect influence, through over-all economic policy measures, such as the Ministries of Economy and Foreign Trade, the Treasury, Labour and Planning, through monetary, fiscal and tariff policies. Ad hoc committees or boards empowered to decide on foreign trade, pricing, wages, etc, also share in the work or responsibility of formulating specific aspects of industrial policy. But the Ministry of Industry per se remains the central authority in the industrial field. And yet, the line or lines of policy that have evolved over the last ten-to-fifteen years have taken the shape of successive laws and resolutions that can hardly be traced to an over-all pattern of a uniform criterion.

V — Industrial policies in the context of regional co-operation.

1 — Regional cooperation in the field of industry covers a much wider scope than the act of negotiating — bilaterally or multilaterally — the development of one or more branches of industry. Regional co-operation is desirable not only as an objective, but also as a basic instrument of industrial policy. With the stage of industrialization reached so far in the A.R.E., a number of manufacturing projects has reached — or will sooner or later reach — a level scarcely compatible with the size of the home market. In the absence of effective regional cooperation, the continuance of the industrialization process and its acceleration in consonance with new needs would meet with difficult problems. Steel-making, the motor-vehicle industry, and petrochemicals are good examples of great potentialities of economies of scale.

2 — Several bilateral and multilateral agreements with foreign countries have been signed which bear directly on industrial

development. A few of these serve to illustrate the impact on industrial growth in the A.R.E. Bilateral agreements with the USSR helped initiate the first industrialization programme of 1957; many industrial projects in this and later programmes were supplied by the Soviet Union within industrial protocols that were signed for that purpose. More recently, an agreement for an iron and steel complex was signed. Poland, also agreed in 1967 to supply complete plants for production of electric zinc and for lead and zinc; foundries; transformation stations and steam boilers: Kraft paper; nitrogenous fertilizers; railways carriages etc.

3 — In the field of multilateral agreements the A.R.E., India and Yugoslavia signed an agreement in December 1966 whereby it was decided that cooperation in the field of industry could be intensified and enterprises encouraged to negotiate tripartite agreements. More specifically, it was considered that industrial cooperation could be extended to "industries engaged in the processing of agricultural products and of minerals, in the manufacture of capital goods and durables, and in the production of fertilizers and other chemical products". Of particular significance was the reference to joint consultation "in order to identify areas of fruitful cooperation with a view to promoting specialization in production, bringing about economies of scale". Further back, in May 1965, a protocol had been signed between the A.R.E. and Yugoslavia setting fields for industrial cooperation in the production of tractors and agricultural machinery, engines and motor vehicles, and the production of electrical equipment. It also laid down the basis for reciprocal credit facilities through the establishment of a Bureau for Economic Cooperation in Industry. On similar lines, the tripartite agreement of 1966 produced joint working committees for each branch of industry to meet and devise ways and means of furthering industrial cooperation of the partners.

4 — More recently, the A.R.E., the Sudan and Libya have also agreed to further their industrial development through regional cooperation. Similar — though bilateral—agreements are also concluded with other Arab countries.

5 — Wider economic cooperation in the industrial field has also been exercised by the A.R.E. within the framework of the Arab Economic Unity Agreement of 1957. Earlier, the Arab

Trade Convention — the first multilateral trade agreement among the State members of the Arab League—was a first step towards an Arab Common market. The«Convention» covered, in schedule B, some 150 items of light manufactures or processed goods, for which a 25 per cent reduction of the normal customs duties was provided for. Later amendments to the «Convention» added a schedule C of nationally manufactured goods which enjoyed accordingly a 50 per cent reduction, and schedule D providing for a 20 per cent reduction of the applied tariff in favour of certain assembled manufactures for which the cost of local labour and Arab raw material was at least 20 per cent of total production cost.(29)

6 — The Arab Economic Unity Council — in its often - referred - to Decision No. 17 — set 1 January 1965 as the starting date for the launching of efforts towards establishing an Arab Common Market. Industrial goods listed in Schedules B and C of the Convention are to become tariff-free over a transitional period of seven and one-half years and five years, respectively. Import duties on all other manufactured goods exchanged among participants are to be removed gradually at an annual rate of 10 per cent of the original duty. The freeing of all manufactured items from quantitative restrictions irrespective of their inclusion in Schedules B and C of the Arab Trade Convention is to take place at an annual rate of 10 per cent of the number of items coming under such restrictions as of 1 November 1964. No special provision was made for Schedule D.(30)

7 — The achievements, in the field of trade liberalization, reached by 1969 led the «Council» to rise to 20 per cent the rate at which manufactured items are being freed from quantitative restrictions. By January 1, 1970 all manufactured items in the «Arab Trade Convention» became totally tariff-free, while other manufactures receive 80 per cent reduction of the original duty. At the same time, 80 per cent of manufactured items in Schedules B and C are free of quantitative and other administrative restrictions.(31)

8 — To think however that a free, or freer, trade area is simply an open gate to more trade in manfactures is but a naive approach to the problem. A closer integration of the structu-

res of industrial production in the partner countries, to men-
tion only one, is a more important factor in the common deve-
lopment of industry in the region. The characteristics of the
earlier extensive type of industrial growth in the A.R.E., and the
present trend in other Arab countries towards the same pattern,
will eventually lead to a situation where the industries in each
country would cover a whole range of manufactures in a given
category. The great differences that exist would reflect the
varying levels of industrial development reached by the Arab
countries, and not specialization in particular lines -- or compo-
nent parts of a line — within a given category, based on the
country's natural resources and other factors.

CONCLUSION

1 —To conclude from the above appraisal of industrial
development in the A.R.E. that there has been no basic indust-
rial policy or that a strategy for the industrial sector has been
lacking would be a gross over-simplification in a problem of a
very complex nature. It is probably more appropriate to say
that industrial policy was in the making. Several instruments
guiding industrial policy formulation were not sufficiently co-
ordinated or in time integrated into a coherent body. This aspect
of the process of industrialization did not, however, mitigate
against, let alone harm, the immediate rapid and very broad
industrial growth that the A.R.E. has witnessed, and very de-
finitely enjoyed, over the nineteen sixties. What is meant to
be emphasised here is that unless the few shortcomings of past
industrial policy — touched upon earlier — are remedied, indus-
trial policy can hardly continue to meet its bolder responsibi-
lities of the future efficiently.

2 — The effectiveness of industrial investment does not
only depend on whether the funds are being properly channelled
into the different branches of the manufacturing sector, but
also on the efficiency with which production capacity — both
existing and envisaged — is utilized. The position of manufac-
tured products as regards efficiency and productivity is closely
bound with the virtual absence of competition in which the
country's industry in general has developed. The protectionist
policy imposed by the external sectors's limitations and by the

import substitution needs deriving therefrom has completely sheltered it from foreign competition. It also combined to produce a relatively high cost and price level for many manufactured products. We have argued before that an essential requisite for a successful industrial policy for the coming decades is an increasingly active share of world trade in manufactures, through regional integration, bilateral and multilateral cooperation, and in direct competition on world markets. A rational distribution of resources, including investment, in the industrial sector, fuller utilisation of installed capacity, and more competitive cost and price structure should therefore be a basic objective guiding industrial policy.

3 — Finally, the measures adopted to correct the locational pattern of industry in the A.R.E. do not seem to have been very effective. The old pattern of concentrating manufacturing expansion in centres that had already achieved considerable progress is not warranted now that public infra-structural investment is gradually reducing the previously distorted distribution of social and public services. On the other hand, there are signs already in certain areas that the location of industry in traditional urban centres no longer represents real external economies in the supply of these services — housing, transportation, etc. The State, assuming the initiative in industrial development, may well find it less costly, and for community development purposes more rewarding, to create new urban centres to accomodate further industrial expansion.

Footnotes

1 The process of industrial development in Latin America, United Nations Economic Commission for Latin America, New York, 1966. Sales No. 66 II G 4, p. 228.

2 - Law 141 1955 set up a National Planning Commission headed by the Prime Minister, to layout a comprehensive national plan for social and economic development.

3 For a detailed account of this period, see 'A socialist Pattern of Society' in the National Bank of Egypt 'Economic Bulletin', volume XIV No. 3, 1961, pp. 274-281

4 The problems and policies of economic development, an appraisal of recent expedience, World Economic Survey, 1967, Part one. United Nations, New York, 1968, ST ECA 104 table 6, pp. 20-21

5 14 per cent

6 - Total cost here carries the projects further than each plan's period.

7 The term here seems to refer to producer's industries

8 See footnote to table 4.

9 The National Bank of Egypt Economic Bulletin No. 4. 1969 p. 223.

10 The problems and policies of economic development; an appraisal of recent experience. op. cit., table 51, p. 81

11 — 'The process of industrial development in Latin America', op. cit., p. 156.

12 - The National Bank of Egypt Economic Bulletin, several issues

13 For a more detailed study of the new tariff system see 'The New Customs Tariff', the A.R.E. Federation of Industries, Cairo 1963, Egyptian Universities Publishing House, January 1963.

14 'The Economy of the U.A.R. during the 1960's', National Bank of Egypt, Cairo 1963, p. 87

15 Central Bank of Egypt, circular No. 161 1964 (1.2 1969). The exemption relating to the minimum rate of interest was later cancelled according to circular No. 150 1970 (22.7.1970)

16 Law No. 12 1958, Official Journal of the A.R.E. No 7 'bis' A of 29 April 1958.

17 'Industrial development in Africa', United Nations, New York, 1967, Sales No 66 II B 24, p. 259

18 Realized Gross capital formation.

19 Commercial Bank were excluded

20 - Introduced in January 1969 (Prime Minister's Decree No. 41 1969).

21 Law 156 1953 amended by Law No. 175 1954.

22 Report of the Board of Directors of the Industrial Bank, 1967/68, p. 4.

23 — Legislation regulating the system of distribution and appropriation of company profits to serve that purpose was discussed earlier, see section II 4.

24 The 'customs statistics free' amounting to 5 — later reduced to 1 — per cent of the value of imports is kept.

25 Land reclamation projects were also covered.

26 These provisions were negated by Law 137/1962, on 13.9.1962.

27 — Presidential Decree, Official Journal No. 12, 29 May 1968.

28 - The 'Authority' supersedes the 'General Organization for the Execution of the Five Years' Industrial Programme' which was established in 1967.

29 — 'Studies on selected development problems in various countries in the Middle East', United Nations Economic and Social Office in Beirut, United Nations, New York, 1967, p. 25; Sales No. 7 II C. 9.

30 - Ibid, p. 26.

31 — 'Development of Arab Economic Co-operation', A. El-Banna, Paper presented to the Arab Economists Round-Table, Cairo May-June 1970.

TABLE I.– Public expenditure on Industry (1), millions of L.E. 1950-1970

	(A) current			(B) development		
	Total Public expenditure	value	Industry %	Total public expenditure	value	Industry %
1950-51	160	5	3%	31	9	30%
51	199	6	3	35	6	17
52	185	5	3	25	5	18
53	185	8	4	48	19	40
54	213	15	7	57	13	23
55	255	16	6	88	17	19
56	292	37	13	67	16	24
57	260	21	8	59	14	24
58	336	66	20	78	26	33
59-60	358	79	22	127	59	46
1960-61	414	78	19	286	109	38
61	459	81	18	315	122	39
62	650	73	11	362	168	45
63	669	67	10	411	218	53
64	742	60	8	442	200	45
65	861	77	9	345	184	53
66	948	78	8	368	180	49
67	849	57	7	232	105	45
68	1496	267	18	298	164	55
69-70	1641	310	19	350	161	46

1) Includes mining and electricity (and the High Dam after 1960).

TABLE 2. **Industrialization Plans in the ARE: 1958-1970**

	1st Industrial Programme 1958–1960		2nd Industrial Programme 1960 1965		3rd Industrial Programme 1965–1970	
	No. of Projects	Total Cost	No. of projects	Total Cost	No. of Projects	Total Cost
		m.L.E.		m.L.E.		m.L.E.
Mining	14	15.0	95	105.3	27	59.1
Petroleum	14	55.7	22	97.8	23	96.9
Petrochemicals			1	55.0	1	55.0
Chemicals	456	258.1	214	231.6	68	212.8
Building materials			17	5.6	57	65.2
Metallurgical industry			32	107.4	48	202.5
Engineering industry			319	151.7	64	185.6
Food processing			339	157.6	43	84.3
Textiles			187	104.9	103	87.3
Handicraft, rural & small industries			174	8.2	488	22.3
Training centres	18	1.7	40	7.4	20	6.6
Total	**502**	**330.5**	**1440**	**1032.5**	**942**	**1077.6**
Realized at end of programme	105	83.5	931	467.0	...	507.2
Rate of achievement			65%	45%		

Source of table: Compiled from, «Industrial Development in the UAR», United Nations, Industrial Development in Africa, New York 1967, Sales No. 68 II B. 24, pp. 289-301.

TABLE 3.—Value and percentage of Gross fixed capital formation in industry, and the contribution of industrial income to gross domestic product; current prices in millions of L.E. 1959-60 - 1967-68.

	industry	Total	% of industry to total	Contribution of industry	Total	% of industry to total
1959-60	49.3	171.4	28.8	256.3	1285.2	19.9
60-61	67.8	225.6	30.1	285.6	1363.5	21.0
61-62	50.3	251.1	20.0	309.9	1411.1	22.0
62-63	80.5	299.6	26.9	350.9	1562.8	22.5
63-64	105.4	372.4	28.3	392.3	1739.6	22.6
64-65	99.9	364.3	27.4	423.4	1975.0	21.4
65-66	100.6	383.8	26.2	463.1	2124.1	21.8
66-67	98.4	365.8	29.9	477.4	2193.5	21.8
67-68	85.8	298.0	28.8	488.9	2164.8	22.6
Total	738.0	2732.0	27.0			21.9
1958-June 59(1)	34.2					
Total	772.2					

(1) First Five Years Industrial Programme, see Table 2.

Source: Central Agency for Public Mobilisation and Statistics. General Statistics & Analytical Studies, 7th Volume, Dec. 1969, p. 401, 1967-68 is taken from the Ministry of Planning Follow up Reports of 1967-68.

TABLE 4. Production, employment and wages in industry, in current prices. 1959-1960 1966-67

	Gross production(1)		Employment		Wages	
	value in millions of L.E.	percentage to National production	in industry, in 000's	percentage of total active	in industry in millions of L.E.	percentage of total wage bill
1959-60	1087	42.7	602	10.0	89	16.2
60-61	1152	42.9	626	9.6	78	13.8
61-62	1198	43.1	679	10.2	90	14.6
62-63	1374	43.6	726	10.6	125	17.7
63-64	1504	42.9	790	11.1	138	17.4
64-65	1624	41.9	825	11.2	150	16.8
65-66	1769	41.9	842	11.1	154	15.8
66-67	1835	41.8	847	11.0	155	15.3

(1) Gross production includes, according to the terminology of Egyptian planners, intermediate products. It therefore involves double-counting and explains the huge discrepancy between «Gross production» and «Gross national products».

Source: Central Agency for Public Mobilisation and Statistics, 1969.

TABLE 5. Value of industrial production, by major groups, in millions of current L.E., 1952, and 1962/63 – 1967/68

	Manufacturing	Metallurgical	Potrochemicals	Electricity	Total industrial
1952	266	3.6	34	10	314
1962-63	757	8.2	93	42	899
63-64	879	8.7	108	49	1045
64-65	952	8.8	128	52	1140
65-66	1029	9.7	128	57	1224
66-67	1093	7.9	108	47	1256
67-68(1)	1178	8.9	90	58	1335

1) Provisional.
Source : Statistical Indicators of the U.A.R., November 1969. Central Agency for Public Mobilisation and Statistics, p. 102.

TABLE 6. Value of manufacturing production, in public and private sectors, by major groups in millions of current L.E. 1963-1964 - 1967-1968.

	Spinning & Weaving	Foodstuffs	Chemical	Engineering (1)	Construction & building	Total manufacturing
A. *Public Sector*						
1963-64	236	207	95	105	23	666
64-65	244	227	112	107	25	715
65-66	257	228	128	119	26	758
66-67	290	256	128	110	26	810
67-68(2)	345	270	135	111	25	886
B. *Private Sector*						
63-64	89	47	17	54	6	213
64-65	101	49	19	62	6	237
65-66	115	59	21	69	6	270
66-67	112	79	20	66	6	283
67-68(2)	109	90	20	68	5	292
C. *Aggregate manufacturing*						
63-64	325	254	112	159	29	879
64-65	345	276	131	169	31	952
65-66	372	287	149	188	32	1 028
66-67	402	335	148	176	32	1 093
67-68(2)	454	360	155	179	30	1 178

1) Includes metallurgical

2) Provisional

Source : As in table 5, p. 113.

TABLE 7. -Industrial exports, by major groups, in millions of current L.E., 1959-60 1967-1968.

	Total exports	Spinning & Weaving		Foodstuffs		Chemical		Engineering		Other Industrial exports		Total Industrial	
		value	% to total	value	% to total	value	% to total	value	% to total	value	% to total	value	% to total
1959-1960	189.9	18.3	9.7	3.8	2.0	1	1	1	1	12.0	6.4	34.1	18.0
1960	189.0	21.3	11.3	3.9	2.1	1	1	1	1	11.8	6.2	37.0	19.6
61-62	151.0	21.0	13.9	5.0	3.3	1	1	1	1	12.4	8.2	38.4	25.4
62-63	197.8	22.0	11.1	5.5	2.8	1	1	1	1	14.9	7.5	42.4	21.4
63-64	238.2	33.1	13.9	6.3	2.6	1.9	0.8	1	1	16.7	7.0	58.0	24.3
64-65	265.2	37.2	14.0	6.2	2.3	2.1	0.8	1	1	21.6	9.1	65.4	24.7
65-66	258.5	43.7	16.9	5.6	2.2	1.7	0.6	1	1	18.4	7.1	69.4	26.8
66-67	261.3	52.0	19.9	5.9	2.3	1.8	0.7	1.9	0.7	16.2	6.2	77.8	29.7
67-68	246.5	51.5	20.9	7.7	3.1	2.6	1.1	3.3	1.3	11.9	4.8	77.0	31.2

1) Included in other industrial exports.

Source : Ministry of Planning follow-up Reports, several years.

TABLE 8.—Net new investments in industry, 1951-1959, in millions of L.E.

	1951	1952	1953	1954	1955	1956	1957	1958	1959	Total 1951-1959
1.—New registered capital	1.1	1.2	1.9	2.8	7.3	27.3	13.6	8.7	14.3	78.2
joint-stock companies	...	...	...	.	4.0	24.0	10.6	6.1	9.4	
2.—Expansions	1.3	1.2	1.3	1.3	3.3	1.3	1.0	5.2	5.3	21.2
joint-stock capital	...	...	...	...	3.1	0.8	0.7	4.7	4.5	
3.—Contractions	0.3	0.3	0.2	0.5	0.9	2.4	1.7	1.1	0.7	8.1
joint-stock capital	...	...	...	...	0.3	2.1	1.2	0.3	0.2	
4.—Net new investment	2.1	2.1	1.2	3.6	9.7	26.2	12.9	12.8	18.9	89.5
joint-stock capital	...	...	...	...	6.8	22.7	10.1	10.5	13.7	

... = not available

Source : Federation of industries annual year-book, several issues.

TABLE 9. Net new investments in industry, and trade commerce, 1951-59, in millions of L.E.

	Industry	Trade & Commerce	Total	Industry as % to total
1951	2.1	6.9	9.0	23.3
1952	2.1	9.4	11.5	18.3
1953	1.2	6.1	7.3	16.4
1954	3.6	6.3	9.9	36.4
1955	9.7	3.0	12.7	76.4
1956	26.2	2.9	29.1	90.0
1957	12.9	2.7	15.6	82.7
1958	12.8	3.3	16.1	79.5
1959	18.9	5.1	24.0	78.8

Source : As in table 8.

TABLE 10. The contribution of Bank credit to general economic and industrial development, figures in millions of current L.E. and percentages, 1960-1967

Period	End of June Bank Credit Total	End of June Bank Credit industry	% of industry to total	End of December Bank Credit Total	End of December Bank Credit industry	% of industry to total	% contribution of Bank credit to gross domestic product (1)	% contribution of Bank credit to industrial income (2)
1960	257	115	44.9	298	110	37.0	20.0	44.9
1961	283	127	44.8	321	137	42.6	20.8	44.5
1962	309	147	47.5	382	151	39.5	21.9	47.4
1963	372	177	47.6	424	195	46.1	22.8	50.4
1964	304	169	55.5	456	187	41.1	17.5	43.1
1965	412	192	46.6	509	197	38.7	21.9	45.3
1966	410	194	47.2	475	220	46.3	19.6	41.8
1967	425	226	53.1	...	...	...	19.5	47.3

1) Total bank credit, end of June figures, to gross domestic product in fiscal years ending June of year shown.
2) Industrial bank credit, end of June figures, to industrial income in fiscal years ending June of year shown.
Source : Constructed from data available in credit and banking development, Central Bank of Egypt, several issues; and follow-up reports of the Ministry of Planning, several years.

TABLE 11. Distribution of Industrial Bank loans and advances, by maturity, 1958-1968, Millions of L.E. & percentages.

	Total	% to total of loans payable		
	(millions)	within one year	1-5 years	5-10 years
End of December				
1958	5.2	75.5	7.5	17.0
1959	6.7	82.1	7.5	10.4
1960	8.5	75.3	15.3	9.4
1961	9.1	76.9	11.0	12.1
1962	8.6	77.9	9.3	12.8
1963	8.5	84.7	4.7	10.6
1964	8.4	83.3	3.6	13.1
1965	8.2	76.9	2.4	20.7
1966	11.5	36.5	20.0	43.5
1967	14.2	54.1	23.9	22.0
1968	14.6	17.3	25.5	57.2

Source: Credit and Banking Developments, Central Bank of Egypt, several issues.

TABLE 12.— **Annual disbursements of Industrial Bank loans and advances, by ministry, in millions of L. E.**

	Total	*Payable*					
		Within one year		1-5 years		more than 5 years	
		value	%	value	%	value	%
1962-63	917	92	10.0	49	5.3	776	84.7
63-64	880	102	11.6	80	9.1	698	79.3
64-65	1169	32	2.7	238	20.4	899	76.9
65-66	2524		–	379	15.0	2145	85.0
66-67	4781	-		1248	26.1	3533	73.9
67-68	3973	—	—	2196	55.3	1777	44.7

Source : Report of the Board of directors of the Industrial Bank, several years.

TABLE 13.—Distribution of disbursements of Industrial Bank loans, according to size of loan and by sectors, 1962/63 - 1967/68

	Size of loan disbursements						Sector				Economic activity										
	Less than 10		10 – 100		100 and over		Public		Private		Total	Spinning & Weaving		Engineering		Chemical		Paper & Printing		Other	
	L.E. 000's	% of total	L.E. 000's	% of total	L.E. 000's	% of total	L.E. 000's	% of total	L.E. 000's	% of total	L.E. 000's	L.E. 000's	% of total	L.E. 000's	% of total	L.E. 000's	% of total	L.E. 000's	% of total	L.E. 000's	% of total
1962/63	70	7.7	147	16.0	700	76.3	674	73.5	143	15.6	917	569	62.1	182	19.8	32	3.5	106	11.6	28	3.0
1963/64	147	16.7	133	15.1	600	68.2	689	78.3	191	21.7	880	588	66.9	209	23.8	52	5.6	27	3.0	4	0.7
1964/65	19	1.6	229	19.6	921	78.8	1002	75.7	167	14.3	1169	560	47.9	179	15.3	63	5.4	366	31.3	1	0.1
1965/66	228	9.1	428	16.9	1868	74.0	1973	78.2	551	21.8	2524	313	12.4	274	10.9	689	27.3	82	3.2	1166	46.2
1966/67	241	5.2	725	15.1	3815	79.7	3941	82.4	618	12.9	4781[1]	412	8.6	296	6.2	784	16.4	187	3.9	3102	64.9
1967/68	547	13.8	1062	26.7	2364	59.5	2376[2]	59.8	1360	34.2	3973[2]	428	10.8	430	10.9	2078	52.3	147	3.7	890	22.3

1 Includes L.E. 222 000's & L.E. 237 000's granted to the cooperative sector for the year 66-67 & 67/68 respectively.
2 Includes L.E. 128 thousand granted to Organizations affiliated to A.S.U.
Source : As in table 12.