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**The Problems of Industrial
Development in Egypt**

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Introduction:

The ideas in this paper are the main conclusions of the author's Doctorate Dissertation about: "The Problems of Industrial Development in The U.A.R." (1).

The main thesis of the dissertation is to search whether the process of the post-1952 Egyptian industrialization has followed the most suitable pattern of development which in a course of convenient period of time would create the efficient production apparatus which could provide the economy on flexible self-perpetuating basis with its needs for production and consumption whether directly, or indirectly through foreign trade. Moreover, the thesis examines the factors that have been behind the attained results.

Then, it is clear that the purpose of the study is to investigate and to evaluate critically the industrial experience of Egypt during the period 1952-1969. The main thesis of the study does not ask - mainly - for drawing up a strategy for the future industrial development of Egypt. Nevertheless - as a subsidiary purpose - the conclusions of investigation and evaluation are - modestly enough - to give some directions to be noticed in drawing up the strategy for the future industrialization of the country during the remaining early stages of industrialization.

(1) Hassan Abd-Elaziz Hassan, The Problems of Industrial Development in the U.A.R., Unpublished Ph. D. Thesis, Faculty of Economic and Social sciences, the Central School of Planning and Statistics, Warsaw, 1972.

Industrialization process is a complex one with economic as well as political, social and administrative ramifications. The study is concerned, mainly, with the most important economic ones. It is concerned with such problems as the relative role of industry among the other economic sectors, branch structure of industrial sector, technology of production, size - pattern and spatial structure of industry. Study of these problems necessitates the study of some aspects of the problem of financing the process of development. The dissertation is concerned with these six problems from the macro-economic point of view.

The studied problems are inter-related and complex as well. Carrying out this task, the study has passed through certain sequence of four steps. Each step in its way of fulfilling its tasks benefits with all the previous ones as well as serves the following ones. The first step prepares the back ground for the subject matter of the study. It is concerned with the Egyptian economy before 1952-Revolution. The second one investigates the solely characteristic aspects of each of the concerned six problems separately. Then, it is concerned with the actual process of industrialization since 1952. The third step analyses the inter-related aspects of these problems with each one of certain macro-economic variables namely, labour absorption, productivity implications, domestic demand magnitudes, domestic supply and its internal consistency and foreign trade structural changes. It studies the process of industrialization and the complex of the main macro-economic variables. The fourth step, through its way of evaluating the Egyptian achievements of industrialization for each of the concerned problems separately, summarizes and combines the previous steps. It includes, more, the theoretical scientific bases for evaluating

each of the concerned aspects and ends with a proposed model for the future process of industrialization. The dissertation by its four chapters comprises these indicated four steps respectively.

The main conclusions are simply presented - in the present paper - under the following items:-

- I. Egyptian process of development in regards to the development gap.
- II. Tendencies of accumulation.
- III. Industrial development in regards to the development of the other economic sectors.
- IV. Structural development of industry.
- V. The level of technical progress and techniques of production.
- VI. Size-pattern trends and spatial structure of industry.
- VII. Final comments.

I. Egyptian process of development in regards to the development gap:

A new face of Egyptian history has begun with the emergence of the 1952 Egyptian-Revolution. Enormous changes in the political, social, and economic fields have been taken place. The process of socio-economic development has been considered the way to transfer the economy from its backward stagnated stage to the path of development. Certain importance has been given to the process of industrialization as it is considered the corner-stone of the development process.

The realized recently Egyptian level of economic development can be considered a higher one compared with the pre-1952, nearly, one-half century stagnated level of development. Per-capita real income increased with about its one-third over the period 1952-1969 as against its fluctuated stagnated low level over the period 1913-1952. Nevertheless, the post-1952 process of development, particularly, the process of industrialization has not been enough to narrow the pre-1952 gap between the Egyptian level of economic development and those of the highly developed countries. The Egyptian annual growth rates of G.D.P. were lower than those of the groups of centrally planned economies and developed market economies. The different used indicators have proved that Egypt is, still, in the early stages of industrialization. As a matter of fact, now-a-days, the task is not easy as developing countries are facing not only the problem of underdevelopment but also the problem of technological revolution taking place in the developed countries.

Concerning the specific conditions of Egypt, it is difficult to say that the recent process of industrialization has followed the most suitable pattern of development. Many considerations have been responsible for that result. The following points refer to the important ones.

II Tendencies of accumulation:

Domestic saving ratio has been stabilized around 12 per cent during most of the studied period with a latter slight increase and a last great decrease to 7.7 per cent during the year 1968/69. Apart from the last decrease, this level may be a reasonable one compared with the ones in other developing countries; but it is small in comparison with the present requirements of development. It is, also, a little bit lower than its average level during the four years prior to 1952. That stabilized domestic saving ratio has occurred inspite of the realized relatively high annual growth rates of G.N.P. and the followed institutional changes. The most important was the adoption of the two required social reforms for accumulation, viz. nationalization and land reform. As a matter of fact, on one hand, nationalization was followed, only, in the later years and land reform has not yet fully utilized as a real source of accumulation.

On the other hand, government policies - with exception during the period 1965/66-1967/68 - were in the form of leaving per capita consumption

levels to be improved.⁽¹⁾ This attitude was so clear from: keeping the increase of prices in moderate rates inspite of the followed budget deficit policy, less mobilizing agricultural economic surplus inspite of its expansion - as a percentage share of net agricultural output - from 25.0 per cent in 1954 to 55.3 per cent in 1964/65, expanding free and semi-free services in addition to the different measures of redistributing income in favour of lower income classes having higher propensity to consume and the followed - next to 1960 - employment drive policy.

Confining our comments on industrial policies from the point of view of their responsibility on creating consumer demand, it is possible to say that, during the period 1952-1959 a convenient relations were existed from one hand, between the increments of gross value added and the allocated investments to the industrial sector in comparison with the other economic sectors; and from the other hand, between the rates of growth of labour productivity and the rates of growth of wages in manufacturing industry. In contrast, during the period 1959/60 - 1968/1969, the previous two phenomena have been reversed. Then, industrial sector (with its policies) - particularly next to 1960 - has participated in the explained high growth rates of consumption and the stabilized domestic saving ratio.

The government attitude toward consumption may be justified due to the 1952 low per-capita consumption levels. But, as a consequence to the low - in comparison with the requirements of development - and stabilized

(1) Real per-capita consumption increased with average annual growth rates of 5.0, 2.5, 0.1 and 8.9 per cent during the period 1952/53-1959/60, 1960/61-1964/65, 1965/66 - 1967/68 and 1968/69 respectively.

level of domestic saving ratio two consequences have occurred. From one hand, accumulation - as a percentage share of G.N.P. - has leveled more or less around the low level 13.5 per cent (with even a decrease during the last year 1968/69 to 12 per cent); with exception the period 1960/61-1964/65 during which an increasing trend reached a little less than 20 per cent. Apart from the achieved productivity levels, these moderate accumulation ratios - during most of the studied period - have been, greatly, responsible for the explained persistent development gap. It has to be added, even, that the achieved accumulation levels were, partly, financed by foreign savings. From the other hand, high consumption ratios had the effect of more allocating the available resources to consumption objectives instead of productive ones, as well as asked for more importation of consumer goods and less exportation of them.

As a matter of fact, at the end of 1965 the government had changed its policies towards consumption. The new policies aimed to restrict both private and public consumption. However, in 1968/69, these policies were reversed with a return to the old ones, realizing the highest both current and real consumption rates of growth. It was possible to know that the new policies were accompanied by a reduction in the annual growth rates of industrial output, the increase of the stocks of finished products and excess capacities. However, these new policies towards consumption were not the only responsible factors for the occurred adverse conditions, the situation improved, in 1968/69, with the change of these policies. This does not mean that - in the case of developing countries - controlling the growth rates of consumption for the aims of development leads, directly, to

shrinking the economic activities. But, such policies have to be accompanied by directing more economic resources to the productive activities; the case which was not adopted in Egypt. In Egypt restricting domestic consumption was accompanied by another policies restricting, moreover, investment imports (including productive ones) and employment possibilities. The bad consequences were a result, moreover, to the high share of consumer goods in the industrial sector with a large under-construction capacities of these products well as they were due to some deficiencies in the pricing system.⁽¹⁾ The most important is to notice that mentioned by B. Hansen and G. Marzouk:

"reduction in consumption must not be allowed to lead to fall in domestic production. This means... that a reduction in consumption will be a solution only if the consumption in question consists of import goods, or is competing directly with foreign demand for exportable goods, or the resources set free are absorbed in the production of exportable goods, which will also be in fact sold abroad." But, the resulted change due to the policies of reducing consumption may not be as quickly as required. Therefore, "consumption must be cut, but it matters a great deal just how this is done".⁽²⁾

Controlling consumption is not an evil by itself, but the way of its application may not be an easy one. It is important to say that restricting consumption during the take-off stage may be - to great extent - significantly recommended to be able to allocate more resources

(1) For instance the prices of durable-consumer goods were raised so high for making a reduction in the domestic demand in order to save more volumes to be exported without examining the availability of real possibilities for exportation.

(2) B. Hansen & G. Marzouk, Development and Economic Policy in the U.A.R. (Egypt), North-Holland Publishing Company, Amsterdam, 1965, p.237.

to the productive activities; referring especially to the mentioned concerning the great need of speeding the process of economic development in the developing economy.

In short, apart from the low levels of productivity, the most important reason behind wasting potential domestic accumulation has been the government policies of leaving domestic consumption growing with high rates. Apart from population growth; policies of prices, wages, taxes and services have been responsible for consumption expansion. The attitude of the government towards consumption was a result to social considerations, as the pre-1952 per capita consumption levels were low. This attitude may be, to some extent, justified. But the growth of per capita consumption had to be controlled to lower growth rates than the realized ones, with a consideration of the growth rates of productivity in order to give the chance for the ratio of domestic saving to increase. The followed institutional changes might only have the worth effect of keeping domestic saving ratio nearly stable without a decrease as well as transferring the domestic saving from the private hands to the public one.

III. Industrial development in regards to the development of the other economic sectors:

Over the studied period, 1952/53 - 1968/69, the most striking phenomenon is the continued post-1930 tendency of increasing the relative shares of industry, transport, communications and other services in G.D.P. on the account of decreasing the relative shares of the previously dominating sector; viz., agriculture, commerce, finance

and housing. But, the net result of this structural change has been the form of, slightly, decreasing the proportional share of the commodity sectors in G.D.P. Really, the proportional share of the industrial sector has increased with about 4-7 percentage units of the G.D.P., but the decrease in the proportional share of agricultural sector has been higher (7-9 percentage units). The critic point was that the expansion of services was relatively high particularly during the last nine years 1959/60-1968/69.

In 1968/69, the proportional share of the industrial sector accounted for about 21.5 per cent of G.D.P. as against 15 or 17.5 per cent in 1952/53. To this sector a relative shares of - a little less or more of - one-quarter total investments have been allocated. In absolute terms, the yearly volumes of investments have been, nearly, tripled from 1952/53 to 1968/69. But, even, the relative allocated investments to industry have been lower than the planned targets and, greatly, low compared with the experience of socialist countries. The change which has taken place in the pattern of resource allocation - not in accordance to the planned targets - has been induced, mainly, by humanitarian and social considerations. The indicated undesired high expansion of domestic consumption as against the mostly rigidity of prices, might have the influence of miss-shaping the pattern structure of G.D.P. and realizing foreign trade deficit. The increased demand on agricultural products necessitated the allocation of an increased volumes of investments to agriculture, but the limited cultivable land raised the required capital cost and reflected on the balance of foreign trade in the form of increased imports of food particularly cereals. This is nothing to worry about, as long as a portion of the increase in non-agricultural output made possible by a transfer

of resources out of agriculture can be exported, or can replace formerly imported goods. But, when this increase in production is greatly concentrated in services, which can not be exported (except in the form of tourism), and in manufacturing which is often quite insufficient, balance of payment problems are a natural result. Considering the limited possibilities of expanding agricultural production, the blame may be directed, on one hand, to the unplanned expansion of consumption, and on the other hand, to the over expansion of services and the relative insufficient industrial expansion and/or the non-competitive exports of the new industrial output.

In short, the given relative emphasis to the industrial development was modest in regards to the specific conditions of Egypt. It is worth to remember what was noted by W. Arthur Lewis that countries with inadequate agricultural resources relative to their population - like Japan and Egypt - should export manufacture products and import agricultural products.⁽¹⁾

IV. Structural development of industry⁽²⁾

Within manufacturing sector the most striking phenomenon is the predominance of consumer-goods industries which accounted, in 1966/67, for about 58 per cent of the contributed gross value added by manufacturing industry. Considering the part of intermediate-goods industries

(1) See; B. Higgins, Economic Development, Constable and Company Limited, London, 1959, p. 357.

(2) For more knowledge about this point, see; Hassan Abd-Elaziz, Structural Changes of The Egyptian Industry, I.N.P., Memo. No. 1052, Cairo, 1973.

which was allocated to consumer industries, the share of consumer-oriented industries goes up to 82 per cent of the gross value added by manufacturing industry in 1966/67, as against about - a little bit more - 88 per cent in 1952. This big share of consumer industrial output, which has witnessed, only, a slight relative decrease through the 15 years from 1952 to 1967 - mostly from 1959/60 - reflected the big relative actual allocated investment shares to both of the consumer-goods industries and the oriented industrial intermediate goods to consumer industries. This given more attention to consumer-goods industries was more than could be justified on long-term considerations. Apart from exports of textiles, the expansion of consumer-goods has been, mainly, an import-substitution character; and consequently for facing the expanded unplanned consumer domestic demand. The expansion of these industries may be justified as they absorbed more labour and more spread them among governorates as well as they characterized by comparative advantages because of the mostly use of domestic raw materials and the availability of their needed skillness. But on the light of the experiences of some other countries and the present conditions of developing countries, these advantages are short-run ones. If it was possible to control the expansion of domestic consumer demand and consequently if it was possible to export these saved volumes; the expansion of these industries would have been justified. But, the occurred case was that the allocated resources to these industries were wasted by the expanded domestic demand. It is right, that import substitution process by establishing these industries was nearly

a complete one as mostly the domestic natural conditions permit; nevertheless they reflected certain burden on the balance of trade either directly through their import requirements of machinery, equipments and other inputs or indirectly, through import needs of the accompanied established intermediate goods industries.

In contrast, capital goods industries accounted for a very small proportional share of the contributed gross value added by manufacturing industry which did not exceed 6.0 per cent in 1966/67 as against 5.0 per cent in 1952. Considering the part of intermediate goods industries which was allocated to the production of investment goods, the share of the investment-oriented industries goes up to about 18.0 per cent in 1966/67 as against about 12.0 per cent in 1952. This small share of the investment industrial production, which has witnessed, only, a slight relative increase through the 15 years from 1952 to 1967 - particularly next to 1959/60 - reflected the small relative actual allocated investment shares to investment-goods industries. This could not be justified on long-term considerations. Basic capital-goods industries which are needed for building the investment base for the process of economic development - represented in machinery building industries - have been, nearly, neglected. Then, the process of development had depended, mainly, with an increasing volumes upon imports of these products.