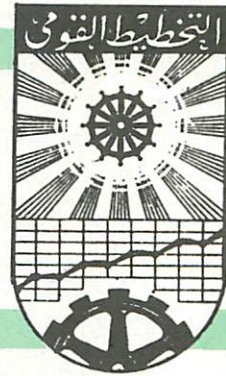


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Economic Reform in Egypt  
(Motives and Orientations)

By

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**" ECONOMIC REFORM IN EGYPT "**  
**( Motives and Orientations )**

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## **" Introduction "**

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The economic reform in which Egypt is now involved may be described as a determined action looking for solutions to many accumulated socio-economic problems . This reform has become the major objective of the government since 1987 . Its beginning dates back to 1978 when the government adopted gradual measures to rectify the foreign exchange rates and liberate the foreign exchange market in Egypt .

The two most important aspects of the economic reform in Egypt are changing the egyptian economy into a free market economy , and limiting the public ownership to a necessary minimum by extending the private ownership to almost all sectors of the national economy .

It is hard to explain the necessity of the economic reform in Egypt without giving some historical background . Since 1952 socio-economic development has become one of the major interests of successive Egyptian governments . But the way to achieve this goal changed several times between 1952 and 1987 . These frequent changes , on the socio-economic level and on the socio-political level , created many serious problems that made the necessity for a comprehensive economic reform very clear . One of the two major objectives of this paper is to answer why , and how , economic reform has become necessary in Egypt .

It is quite true , as will be shown , that the economic reform is strongly justified in Egypt , but one might ask whether the

orientations of this reform are equally justifiable or not . Despite the fact that economic reform policies and experiences in the last two decades are guided and followed up by the IMF and the World Bank it will be a mistake to speak of a standardized economic reform to be adopted everywhere regardless of differences in the domestic conditions . Thus , the second major objective of this paper is to comment on the orientations of the economic reform in Egypt .

## **I. THE NECESSITY OF ECONOMIC REFORM IN EGYPT :**

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In this section we will try to answer the question why , and how , the economic reform has become necessary in Egypt . To answer this question , a brief historical background , not too far reaching seems to be a good start . But this start should be preceded by conceptualizing the economic reform to have some guidelines for this brief historical background . Shedding some light on the concept of economic reform and on the historical background of the Egyptian economy paves the way for explaining the reasons for economic reform in Egypt . These reasons will be discussed under two major headings : internal reasons and external reasons .

## **1.1. The Concept of Economic Reform :**

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1.1.1. A country needs economic reform when its national economy faces problems culminating to a point where institutions , policies , and measures adopted cease to be efficient in overcoming , or at least alleviating , these problems . Thus , the concept and dimensions of economic reform are inseparable of the problems facing the national economy . These problems are not only domestic but also international .

1.1.2. Accordingly , we consider the economic reform as a multidimensional process(1) designed to overcome the culminating problems of the national economy . It thus follows that economic reform is not a standardized process applicable everywhere . Even if we agree that economic reform of nowadays generally means giving place to the objective economic laws and to market mechanisms in guiding the decisions of resource allocation , investment , consumption , saving , and the initial distribution of national product(2) , it will be a great mistake to consider the economic reform as a standardized process . A wide margin of liberty of action must be admitted to deal with country differences in socio-economic and political conditions and in the degree of responsiveness to changes necessary for economic reform .

1.1.3. Considering Egypt's economic problems and the willingness of Egyptians to improve their life conditions , the economic reform in Egypt may be defined as the process of exposing

the Egyptian economy to free market conditions , encouraging the private sector to expand its activities and to participate intensively in the socio-economic development , and limiting the direct economic activity of the state to a minimum .

1.1.4. The process of economic reform in Egypt gradually tends to subject all economic activities to the supply and demand laws . The interaction of supply and demand and the active market mechanism represent the objective conditions for the economic laws to guide the efforts of individuals and projects according to rational economic calculus . Thus , the allocation of resources , the kinds of goods and services to be produced , and the distribution of national product whether in place ( i.e. between participants in its generation ) or in time (i.e. between consumption and investment) will all be decided through the market mechanism .

1.1.5. The economic reform in Egypt , being defined as mentioned above , might give the impression that the State's role and responsibility in the economic life and the social stability will be marginalized . However , this is not true in a developing country , like Egypt , since it is neither possible nor advisable for the State to discharge itself of such role and responsibility . Hence , the State in Egypt will continue to play an important role in the socio-economic life , but the nature and tools of this role must be adapted to changes brought about by the economic reform . Accordingly direct central planning leaves place to indicative planning , and policy administration and market incentives substitute for orders



and bureaucratic control . Furthermore , each institution , or project becomes completely responsible for the decisions it takes while the central government policies indirectly guide these decisions and minimize undesirable conflicts between them .

1.1.6. It is quite important to have a realistic view of economic reform and not to jump to the conclusion that it means solving all economic problems a country is likely to face . In fact , all what any process of economic reform aims at is to provide the necessary conditions for the interaction of dynamic forces in the national economy in such a way as to make this economy capable of dealing with different economic problems without having any of them aggravated to a chronic crisis situation(3) . This should be quite clear to all countries undertaking an economic reform policy to avoid socio-economic , and political , instability resulting from exalted and unrealistic aspirations .

## 1.2. Historical Background :

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1.2.1. Since 1952 socio-economic development has become a principal objective for the successive Egyptian governments . Between 1952 and 1957 , the private sector continued to assume the major responsibility of economic activity in almost all sectors of the Egyptian economy . The performance of the private sector , during this period , was not bad (4) but it was far from being enough to satisfy the necessary conditions for fast economic development . This

led to the conviction that the private sector will not succeed in achieving economic development (5) .

1.2.2. Thus , in 1957 the State started to interfere directly in the economic activity and arranged to control the key positions in manufacturing , trade and finance . To do so , the government issued , and started to apply , a quinquennial programme for industrialization ( 1957 - 1961 ) . This was accompanied by Egyptianizing most of the foreign investments working in the country by that time . In principle , the process of Egyptianization means the transfer of ownership from the hands of foreigners to the hands of Egyptians . But , practically , this process put most of the foreign investments under the direct administration and control of the government (6) . This paved the way for the emergence of a strong public sector in manufacturing , trade and finance . It thus follows that the role of the private sector in the Egyptian economy started , rather practically than officially , to be largely minimized .

1.2.3. Just before the end of the quinquennial industrialization programme , the Egyptian regime transferred the national economy into a centrally planned one and nationalized all financial institutions and the majority of projects in manufacturing, extraction and trade . Ownership of agricultural land was left in the hands of the private sector , but the agricultural activities were firmly controlled (7) . Thus the government directly assumed the responsibility of achieving socio-economic development through comprehensive central planning and depending on a predominant public

sector . Accordingly , the first five-year plan ( 1960/61 - 1964/65 ) was prepared and put into action .

1.2.4. On the average , the real rate of growth achieved during this plan reached about 6.5% which could be considered relatively a high score(8) . But this relative success was mainly due to the fact that the vast nationalization processes (1960 - 1962) put most of the large and successful projects under the State control and the planning process was mainly based on this fact . These projects were not yet affected by the governmental routine and bureauratic diseases and the collective overemployment policies ; defects that negatively hit the public sector later on .

1.2.5. Since the end of that five-year plan direct comprehensive planning left the place for a kind of indirect planning depending on estimations of resources availability and objectives to be achieved , some governmental administrative measures ( licences , quotas , rigid pricing , credit discrimination ... etc. ) , and annual following-up reports to show differences between planned objectives and effective results . It is not our intention here to evaluate the planning process in Egypt ; what we are actually interested in is to draw the attention to the fact that this process was inseparable of the growth of the size and importance of the public sector and its economic performance .

1.2.6. The predominance of the public sector continued mainly between 1957 ( the year of the Egyptianization of foreigners' investments ) and 1974 ( the beginning of what is known as the open

door policy ) . The public sector played an important role in the economic growth and structural changes of the Egyptian economy during that period . It also assumed the responsibility of supplying the Egyptian society with the means of satisfying basic needs , at least without dramatic bottlenecks , during the three wars in which Egypt was involved ( the Yemen War 1962/67 , and two Arab / Israeli Wars 1967 & 1973 ) .

1.2.7. Yet , the Egyptian experience with the public sector was not without serious problems . The most important of these problems were : a) the rigid organization and behaviour of the public sector enterprises , b) the overemployment due to governmental policies motivated by socio-political factors rather than economic considerations , c) the monopolistic position and overprotection which resulted in modest productivity and inefficient use of available resources , d) the application of governmental pricing policies which were far from being properly based on cost/benefit analysis and have nothing to do with market conditions ; thus black market operations became a daily practice , e) the great shortage of self-financing sources and techniques due to the financial interdependence between the public sector and the State Budget , and f) the bad management and technological sterility .

1.2.8. Because of these , and other , problems , the public sector in Egypt never succeeded in providing the necessary prerequisites of self-sustained growth for the Egyptian economy . Moreover , the predominance of the public sector did not stop the

aggravation of serious problems like the balance of payments deficit , the State Budget deficit , inflation , the infrastructure deterioration , housing shortage , and the insufficiency of financial resources required for social services .

#### 1.2.9. The Open Door Policy (9) :

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A) In an attempt to alleviate the above mentioned problems , the Egyptian policy makers thought of attracting Arab and foreign investments to participate in the growth of the Egyptian economy . Thus , by the end of 1972 the Egyptian government started to relax the severe foreign exchange control through establishing what was then known as the " Parallel Foreign Exchange Market " . We consider this arrangement as an introduction to the measures that were taken , and the decrees that were issued , between 1974 and 1977 , under the heading of what was then termed " The Open Door Policy " .

B) Officially , the main objective of this policy was to encourage Arab and foreign capital inflows to invest directly in different projects that were needed for alleviating the pressing problems of the Egyptian economy . But , practically speaking , this policy was designed to encourage the inflows of the convertible foreign currencies ( regardless of the nationality of their sources , Egyptians or not ) to be invested in establishing productive projects or to be used in financing imports . It was clear that such inflows

were impossible unless being under the auspice of a well protected , and a well guaranteed , private sector .

C) One might consider the " Open Door Policy " as an attempt to reform the Egyptian economy because it took the first steps towards a free foreign exchange market and encouraging the private investments . However , this policy was far from being well integrated in the national economic policy which continued to be subjective in accordance with intensive direct interference of the State in the economic activities .

D) Thus , the " Open Door Policy " did not help in alleviating the major problems of the Egyptian economy ; on the contrary , this policy aggravated the most important of these problems ( the State Budget deficit , the balance of payments deficit , the external and internal indebtedness and the inflationary pressures ) .

1.2.10. However , the above mentioned evolution led the government to the conviction that a comprehensive economic reform is badly needed . This reform should be based on limiting the direct economic activities of the State to a minimum , leaving the market forces and mechanisms free to determine prices and to guide the economic decisions in all fields of economic activities , and providing all necessary facilities to the private sector to invest in any projects that seem to be profitable according to the market indicators . But , for social and political reasons , governmental policies and measures , in these directions , were not decisive until