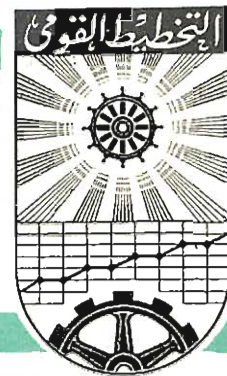


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### STRUCTURAL CHANGES OF THE EGYPTIAN INDUSTRY

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## I. Introduction:- <sup>(1)</sup>

The purpose of the paper is to evaluate - in a summarized form - the changes in the profile of Egyptian industry during the period 1952-1968. This is done from the macro-economic point of view. The conclusions of 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.

The term industry - in the present paper - includes mining, quarrying and manufacturing branches of industry. The classification of industry into branches is done according to ISIC.<sup>(2)</sup> But to give the stress to the main essence of the structural change without unuseful details about each branch, manufacturing branches are grouped, according to some different criteria, to certain categories. For instance, according to the criterion of the main use of the products of each manufacturing branch, it is distinguished among consumer-goods industries, capital-goods

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(1) This paper is a presented summary of one of the studied problems in: Hassan Abd-Elaziz Hassan, The Problems of Industrial Development in The U.A.R., Unpublished Ph. D. Thesis, The Central School of Planning and Statistics, Faculty of Economic and Social Sciences, Warsaw, 1972.

(2) "ISIC" is the abbreviation of "U.N. Indexes of The International Standard Industrial Classification of All Economic Activities".



industries and intermediate-goods industries,<sup>(1)</sup> and according to the criterion of the kind of the use, it is distinguished between consumer-oriented industries and investment-oriented industries.<sup>(2)</sup>

The study begins with a small review about the industrial sector in the early fifties. Hence, it investigates the direction change of the structure of industry over the period 1952-1968 and illustrates to what extent it was in accordance to the drawn policies of industrialization. The next <sup>point</sup> /- as a pre-step for evaluation - investigates the influence of the explained structural-pattern of the development of the industrial sector on certain main important macro-economic variables such as employment absorption and its regional distribution, productivity levels, satisfaction of domestic demand, internal-consistency of the industrial sector, and the development and structure of exports. The last point - namely

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- (1)- Consumer-goods industries include the following manufacturing branches:-  
food products and beverages, tobacco manufacture, textiles, apparel and foot-wear, wood products and furniture, printing and publishing and miscellaneous.
- Intermediate-goods industries include the following manufacturing branches:-  
ginning and pressing, paper and paper products, leather and leather products, rubber products, chemicals, petroleum and coal products, non-metallic mineral products and metal products.
- Capital-goods industries include the following:-  
electrical and non-electrical machinery and transportation means industries.
- (2) Concerning the second classification, a distinction is made within the category of intermediate-goods industries between intermediate-goods for the production of consumer goods and intermediate goods for the production of capital goods. Then, consumer-oriented industries include the first part plus consumer-goods industries, and investment-oriented industries =

concluding comments - benefits with all the previous analysis in evaluating the change in the structure of Egyptian industry and in giving certain directions for the future development in the structure of Egyptian industry. To give a scientific base for the evaluation and recommendations, the point of concluding comments begins with a small comment on the present (-1968) stage of Egyptian industrialization and a short theoretical comment on the suitable profile of industry.

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= include the second part phys capital-goods industries. These classifications are used - with a little difference - by Dr. F. R. Fahmy, see; F. R. Fahmy, Growth Pattern of Manufacturing Sector in Egypt, Memo No. 386, I.N.P., Cairo, January 1964, pp. 1:2.

## II. Industrial Sector in The Early Fifties:

In the early fifties, industry was a small economic sector. It accounted for, nearly, L.E. 158.4 millions or 14.9 per cent of the gross national product in 1952/53<sup>(1)</sup> and contributed with, about, 8.5 per cent of the total employment in 1947. At the same time, industrial exports represented a small portion. It accounted, in 1952, for nearly L.E. 11.6 millions, i.e. 8 per cent of total exports, from which finished products represented 3.2 per cent of total exports.

Principal industries up to that time were those customary in free-enterprise underdeveloped countries, based to great extent on domestic raw materials, mainly of agricultural origin, and had their insured domestic market. In 1952, mining and quarrying industry accounted for a small proportion of 7.7 per cent of the gross value added by industrial sector.<sup>(2)</sup> Manufacturing industry, which represented the most part of the industrial sector was dominated by consumer-goods industries. They accounted for nearly two thirds (63.9 per cent) the gross value added by manufacturing industry in 1952. Intermediate-goods and capital-goods industries accounted for the rest, viz. 31.0 and 5.1 per cent respectively.<sup>(3)</sup> The most part; nearly three quarters; of intermediate-goods output took its way as

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(1) at fixed 1959/60 market prices.

(2) See table No. 1.

(3) See table No. 2.

an intermediate goods for consumer-goods industries and most of the rest was for building and construction activities. Therefore, consumer-oriented industries accounted for 88.2 per cent of the gross value added by manufacturing industry, while investment-oriented industries accounted for the rest small part of 11.8 per cent. Within manufacturing industry the predominance was for the branch of food products and tobacco manufacture. This branch contributed with about 41.9 per cent of the gross value added of the manufacturing industry. Textiles industry came in the second place contributing with a share of 11.0 per cent.<sup>(1)</sup>

These industries substituted, mainly, previously simple-imported consumer commodities. By the early fifties, the process of import substitution of these commodities had nearly come to an end. "Further and impressive rates of expansion in the output of processed food and textiles could only be achieved either if local demand for manufactured goods grew rapidly, if the efficiency of industry improved substantially, or via exports".<sup>(2)</sup> But, the prospects of these possibilities appeared limited.

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(1) The data are in fixed 1959/60 prices; see the sources under table No. 2.

(2) P. O'Brien, The Revolution in Egypt's Economic System, Royal Institute of International Affairs, Oxford University Press, London, 1968, p. 20.



### III. Post-1952 Policies and Changes in the Structure of Industry:

Over the period 1952-1968 industrial sector expanded with relatively high growth rates. Gross value added by industry has been more than doubled one and half times from L. E. 163.5 millions in 1952 to L.E. 420 millions in 1968/69; enhancing the share of the industrial sector in the gross national product with about 3.7 : 6.5 percentage units from 14.9 per cent in 1952/53 to 21.4 per cent in 1968/69. This expansion has been, mainly, due to the expansion of manufacturing industry which accounted for more than 90 per cent of the gross value added by industry. Concerning mining and quarrying industry - the other component part of the industrial sector - in addition to its small share, its gross value added increased with smaller annual rate, during the period 1952-1964/65, has not flourished to a positive-higher rate except during the last two years 1967/68 and 1968/69 due to crude petroleum production.

III.1. The Period of the Fifties: This period had witnessed, early, the activities of the Permanent Council of National Production, and later the implementation of the first part of the First Industrial Programme. Basic industries were stressed by the Council of National Production. The First Industrial Programme took with the policy of realizing a balance between consumer and producer goods industries on the base of realizing self-sufficiency in producing all what can be produced locally without neglecting the expansion of the industrial goods having foreign markets and possessing the domestic elements of success in addition to



the development of basic industries. Generally, the policies of industrialization before 1960/61 were of the character of import substitution one. As against the early fifties nearly completed import substitution of simple consumer goods, the targeted import substitution process was thought to be in the fields of expanded consumer demand, imported durable-consumer goods, intermediate producer's goods and capital goods.

For fulfilling these policies certain priority criteria were indicated. But, there are great doubts about their fulfillment because of the lengthy and often contradictory list of priorities, and the mostly lack of accurate economic studies to the selected projects. At any how, in selecting and expanding industrial projects, there were great react to the pressure of the market to meet the unplanned expanded consumer demand on the account of the expansion of intermediate and capital goods industries. It is clear from the table No. 3, that during the implemented part of the First Industrial Programme, 1957-1959/60, apart from certain deficiencies in the comparison,<sup>(1)</sup> the proportional share of actual allocated investments to consumer-goods industries was more than the planned target. This was on the account of decreasing the proportional shares of actual allocated investments to intermediate and capital-goods industries.

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(1) Such as the possibility of correction which might have been done over the second part of the period of the First 5-Year Industrial Programme, and the shortage up to June 1960 in fulfilling the planned investment target with 35.5 per cent.

Within manufacturing sector, the most striking phenomenon is the increase in the predominance of consumer-goods industries which accounted in 1959/60 for 66.7 per cent of the contributed gross value added by manufacturing industry as against 63.9 per cent in 1952. The most expensive manufacturing branch was textiles industry which accounted in 1959/60 for 23.5 per cent of the contributed gross value added by the manufacturing industry with 12.5 percentage units increase than its 1952 percentage share. In addition to the expansion in consumer-goods industries certain diversification has happened -- especially next to 1955 -- in the side of some modern durable-consumer goods and some intermediate-goods -- such as iron and steel, chemicals, petroleum products, etc. -- and to little extent capital industrial goods. But, the growth of manufacturing industry by its three use categories (namely, consumer, intermediate and capital goods) was with a slight structural change. This slight structural change was biased to increase the relative part of consumer-goods industries, during the period 1952-1959/60, with 2.8 percentage units of the gross value added by manufacturing industry and to decrease those of intermediate and capital-goods industries with 2.4 and 0.4 percentage units respectively.

It is important to note that excluding from the previous analysis, the two year 1952 and 1953; during which consumer and capital-goods industries attained relatively high growth rates while intermediate-goods industries attained a minus growth rate; the relative share of consumer-goods industry, during the period 1954-1959/60, stabilizes while that of intermediate-goods industry increases with 1.7 percentage units and that of capital-goods industry decreases with the same 1.7 percentage units. <sup>(1)</sup>

(1) See Table No. 2.

Considering the classification of manufacturing industry by the two main categories consumer-oriented and investment-oriented industries, it is possible to say that, during the period 1952-1959/60, inspite of the increase in the share of consumer-goods industries with 2.8 percentage units and the decrease in the share of capital-goods industries with 0.4 percentage units, there was a relative noticeable change in the allocation of the output of intermediate-goods industries between them mainly due to the considerable increase in the production of fertilizers and iron and steel.<sup>(1)</sup> Consequently, the proportional share of the category of investment-oriented industries to gross value added of manufacturing industry increased from 11.8 per cent in 1952 to 13.2 per cent in 1959/60, while that of consumer-oriented industries decreased consequently from 88.2 per cent in 1952 to 86.8 per cent in 1959/60.

III.2. The Period of the Sixties:- The First 5-Year Comprehensive Plan, 1960/61-1964/65, stressed the need to expand productive industries with a relatively higher growth rate than that for consumer industries.<sup>(2)</sup> It was indicated that special priority would be given to basic important industries on which the existent industries were dependent or which create the means for establishing new projects either by supplying them with some of their needs or by absorbing their production. This was the targeted

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(1) F.R. Fahmy, Ibid., p. 6.

(2) The target was to expand productive industries by 210 per cent and consumer industries by 37 per cent.

policy as well as there were some indicated priorities with certain relative weights for each; but the selected projects were not, mostly, adequately studied and there are certain doubts about the consideration of the indicated investment criteria. The same, during the present period 1960/61-1964/65, the uncontrolled expanded consumer demand had a great influence on the achieved structural manufacturing pattern which was not in accordance to the targeted policy. Actual investments were more proportionally allocated to consumer-goods industries than the planned target and consequently less proportionally allocated to intermediate and capital-goods industries.<sup>(1)</sup>

Really, over the period 1960/61-1964/65, inspite of the less fulfillment of the planned structural change, there was a noticeable change in the structure of manufacturing industry, as the proportional share of consumer-goods industries in the gross value added by manufacturing industry declined with 10.3 percentage units while those of intermediate and capital goods industries increased with 8.8 and 1.5 percentage units. During this period, in addition to the development of the traditional industries "mostly textiles" there was more expansion of some modern intermediate goods industries such as chemicals, petroleum products etc.<sup>(2)</sup> It is worth to mention

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(1) See table No. 3.

(2) By traditional industries it is meant industries which are existent in the Egyptian economy from relatively many years ago. The contrast is meant by modern industries.



that the lead is shifted from textiles industry to chemicals industry. The last industry realized the highest percentage share in the increase of the gross value added by manufacturing industry. Its contribution of the gross value added by manufacturing industry increased from 5.6 per cent in 1959/60 to 12.1 per cent in 1964/65.

It is worth noting that inspite of the relative great expansion in the proportional share of intermediate-goods industries with 8.8 percentage units, there was a very modest change in the distribution of the products of this category as between consumer-goods and capital-goods industries. In 1964/65, a proportional share of about 32.6 per cent of the net output of intermediate-goods industries was absorbed by capital goods industries as against 30 per cent in 1959/60. Then, the allocated share of the output of the category of intermediate-goods to the production of consumer-goods was, still, high. The net result was that the proportional share of the gross value added by investment-oriented industries, to gross value added by manufacturing industry, increased from 13.2 per cent in 1959/60 to 18.4 per cent in 1964/65, while the proportional share of gross value added by consumer-oriented industries decreased to a relatively very high level of 81.6 per cent in 1964/65 as against 86.6 per cent in 1959/60.

Nearly the same investment criteria of the First 5-Year plan were mentioned concerning the selection of industrial projects of the Second 5-Year Plan 1965/66-1969/70,<sup>(1)</sup> however the approach of annual

(1) UAR, Ministry of Industry, Petrol and Mineral Wealth, Industry and the Policies of Industrialization in the UAR, Arabic Socialist Union, Cairo, July 1970, pp. 4:42. (in Arabic).

plans rather than of five years one was the case. The actual investment data for the period 1965/66-1969/70 show that the proportional share of the allocated investments to consumer-goods industries was greatly decreased than before, while the share of the allocated investments to intermediate-goods industries was greatly increased. But, capital-goods industries were, still, receiving small proportional shares of manufacturing investments. The available data on the structure of manufacturing industry by the three categories of use in 1966/67, show a certain change in the structure of industry in the side of increasing the relative share of consumer lines of production on the account of the productive ones. Yet, this small structural change does not reflect a direct influence of the policy of investment as it is due to certain other deficiencies.<sup>(1)</sup>

In short concerning the structural change of manufacturing industry over the 15 years from 1952 to 1967, it is possible to conclude that inspite of the predominance of consumer-goods industries in the early fifties, these industries have received, directly, more than one-third manufacturing investments and, indirectly, a big share of the high proportional share of the actual allocated investment to intermediate-goods industries. However, these actual achievements were higher than the planned targets, the latter did not neglect the development of this category of industries. Then, consumer-oriented industries accounted in 1966/67 for a high share of the contributed gross value added by manufacturing industry of namely 82 per cent as against a little bit higher share of about 88 per cent in 1952. In contrary,

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(1) The followed, at the end of 1965, policy of shrinking the economic activities was greatly responsible for that phenomenon.