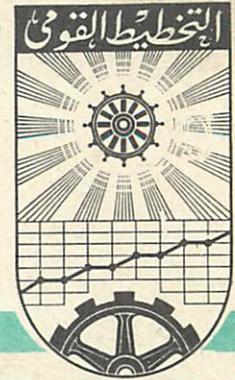


# UNITED ARAB REPUBLIC

## THE INSTITUTE OF NATIONAL PLANNING



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AFRICAN ASSOCIATION FOR  
PUBLIC ADMINISTRATION AND  
MANAGEMENT  
(AAPAM)

THE CHALLENGE OF INDIGENISING  
THE AFRICAN ECONOMY

EGYPTIAN COUNTRY STUDY

BY

Dr. Mohammed N. HANAFI

August 1976

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(ii)

Units of Measurements

£E refers to the Egyptian pound = 100

Piasters = 1000 millièmes. This was officially virtually at par with the sterling pound Until May 1962 when the official selling rate was changed from £E 1 = \$ 2.838 to £E 1 = \$ 2.30

1 Feddan = 1.038 acres = 4,300.833 Square meters.

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## 1. Introduction

### (i) A short description of the economic situation pre- and post independence.

The area of Arab Republic of Egypt is about 386299 square mile (one million square kilometers). However, 4 per cent can be said to be permanently settled and cultivated). The population are thronged in a narrow valley some 2 to 20 miles wide cut by the river Nile and Delta region. In addition there is a new valley consists of a deries of depressions in the western desert and which exteds parallel to the Nile. The cultivable land in these depressions is more than three million acres. However, the agricultrual development in the new valley depends mainly on the possiblilities of the underground water.

The Arab Republic of Egypt has almost uniform aridity climate. The average annually rain is about 5 inches or less. That is why human existence in Egypt depends maily on irrigation from the Nile. The total area under cultivation is approximatlly 6.119.00 feddans. Much land is devoted to cash crops mainly cotton beside the cultivation of subsistence crops.

Modern Egypt dates from the French expedition (1798 - 1801) and the subsequent reign of Mohamed Ali ( 1805 - 1848 ). The former was too brief to leave any lasting mark on the country's economy. The later, which lasted nearly half a century, was a period of great economic and financial innovation. Historically speaking, the reign of Mohmaed Ali was, an attempt to escape the fate to which three previous centuries of Ottomman rule (1517 - 1805 ) had destined Egypt to a rising

progressive, aggressive and exploiting new economic system, the capitalist system of Western Europe.

However, when the European powers successfully intervened and forced up him the "Open Door Policy" and imposed the dismantling of the industrial and trade state monopolies he had set up, not only did his whole economic system, new industries and all, collapse, but also, in the absence of a thriving and enterprising middle class, the door were laid open for swift infiltration, then invasion, then domination, by foreign capital.

Towards the end of Moh. Ali reign, the imposition by the European powers of the "Open Door Policy" and dismantling of state industrial and commercial monopolies, in a country where no bourgeoisie was allowed to develop, had prepared the ground for foreign domination.

There followed a succession of reigns characterized for the most part by the swift march of foreign capital, which advanced, from the financial point of view along three successive routes, foreign public debt, foreign credit institutions and foreign currency annexation. Such a swift advance, however, had not created for itself the institutional or superstructural congenial to its activities.

After the British occupation of Egypt (1882), the structural change of the Egyptian economy into a colonial economy, follows a well known Pattern. In a few decades, the Egyptian economy had changed from a self-contained economy with only feudal external economic connections into a great cotton growing farm supplying Lancashire factories with raw cotton.

One of the main tasks of the British Occupation (1882-1956) in Egypt was to prevent the rise of an Egyptian bourgeoisie which would transform and modernize the economy—Yet the capitalist framework which foreign capital had had to establish, and the growth of a capitalist sector within the economy even though this sector was dominated by foreigners, and closely tied to the colonial type of exploitation had inevitably led to the re-emergence of the Egyptian bourgeoisie after the eclipse it had witnessed during the early years of the occupation.

This bourgeoisie was at first associated with trade, but, in the conditions of the first world war which greatly restricted imports, it branched off into new directions, including manufacture, to supply the home market, and the needs of the greatly expanded occupation army.

Great fortunes accumulated, not only from these new activities but also, in agriculture from the sales of cotton by the landowners, which looked for new outlets for investments. It was in this climate, and in the climate of fear for the fate of the newly created and newly tasted activities, and of the heightened struggle of the Egyptian people for national independence, that the first purely Egyptian bank "Bank Misr" was established in 1920, not only to enter the field of commercial credit, but also to sponsor the growth of Egyptian Industry and other modern economic activities, such as insurance, maritime and late air transport. Besides, Egypt's most spectacular and most controversial entrepreneur is Ahmed Abboud. His industrial empire built up over a period of fifteen years.

By the early 1950's Egyptian industry had completed what might be called the primary stage of industrialization. During this stage an industrializing country replaces most of its more simple manufactured imports with domestically produced substitutes.

However food processing and textiles were of over whelming importance, while the manufacture of consumer durables, metallurgical products, inputs utilized by other industries, and Capital equipment were of little significance.

On the eve of revolution (1952) the direct part played by government in the economic life of the country still appeared relatively insignificant. Consumption and capital expenditure by the state represented about one eighth of national outlay. The state's contribution to national output amounted to a mere 16 per cent of gross domestic product, most of which can be included under the heading of historical public services = defence, justice, fiscal and social administration. Only 2 per cent of local production came from state enterprises (rail ways, postal services, the gas and electricity undertakings of the Cairo municipality and a petroleum refinery at Suez). As for employment, in 1947 just 8 per cent of the working force was engaged by public authorities, central and local.

Successive Egyptian governments from 1923 to 1952 displayed no strong disposition to force the pace of economic advance. Nevertheless, during that period all potentialities of national wealth were exhausted to serve, the interests of the feudal-system, foreign powers and a number of foreign adventures. At the same time its masses have lived in poverty disease, and ignorance and during the past seventy years their standard of living has been sinking steadily because production has not kept pace with the increase of population.

Instability, corruption, rising economic problems, and increasing dissatisfaction produced the conditions requisite for the

revolution. In 1955, within a year after the revolution all traces of British political influence were erased by the withdrawal of the British from Suez, the nationalization of the Suez Canal Company on July 26, 1956, and the sequestration on January 15, 1957, of nearly all British and French business interests following the abortive British-French-Israel aggression in Oct. 1956. Since the revolution the state had appropriated more and more responsibility for the economic development. To some extent the Egyptian government had appreciated the need to work with the private sector, and hence had established mixed committees to draft the plan. However, the failure of private investors to respond enthusiastically to exhortations and incentives, from the government is one of the more important factors behind the inadequate performance of the Egyptian economy during the years which followed the revolution.

When comprehensive planning opened in July 1960, the Egyptian government faced the problem of how to ensure compliance from the private sector with its plans for the economy. The nationalization and other decrees of July 1961 came more as the logical outcome of the extension of state control over the economy and a commitment of planning than as the fruit of an ideological - inspired social revolution. Decisions relating to investment and the allocation of key inputs are centralized and prices are not determined by the free play of market mechanism. In operation Egypt's productive organization stands between the command economies of eastern Europe and the modified market systems of the west. Perhaps the term re-regulated market mechanism economy is roughly applicable to its unique amalgam of institutional forms and operational arrangement.

Egypt's economic problems are simple to understand but baffling

to solve. Here principal resources are fertile agricultural land and an abundance of people; her critical dilemma is the pressure of population upon limited land resources. The statistics of income and consumption indicate no proper progress. From 1913 to 1950 real income per person not only showed no tendency to rise but fell sharply in the great depression of the 1930 and again during the Second World War and mineral production are so gloomy. Egypt's economy is largely agricultural/over (55) per cent of the population live in rural areas and derived their income from the land, with agricultural products, mainly cotton, constituting over 90 per cent of all exports. Although Egypt's economy is based upon agriculture, food must still be imported to keep the population at a bare subsistence level.

In comparison with most other agrarian economies, Egypt's agriculture is already highly developed. As a result of perennial irrigation and the extensive use of fertilizer, yields per acre of many crops are among the highest in the world, so the possibilities for increasing production through more intensive cultivation are quite limited. The productivity per capita; however, is relatively low, and it is continuing to decline at an alarming rate because of the increasing number of people on the land.<sup>(1)</sup>

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See : No. 5, 12 , 14

11- Social and Political Framework.

A significant characteristic of Egyptian society is the unbroken unity of the country throughout the millenniums of history. The Egyptian masses have a social and temperamental homogeneity. Well over 90 per cent of the population are Moslem, and this is of some importance in explaining the orientation of Egyptians to their government. Islam does not separate the church from the state as some other religions do.

For over twenty-five centuries, Egypt was governed by foreigners, and there has been an almost unbroken tradition of centralised and authoritarian government. From the time of the Pharaohs and continuing through the reign of the ptolemies, the Roman governors, the Turks, and the British, the administration of the entire country has been concentrated in the hands of a ruler and a small group of top-level deputies or ministers.

Although the number of foreigners in Egypt has always been small; their influence in political and economic affairs has been great. The principal alien residents of modern times have been mostly of Greek, Italian, French, Turkish, and British nationality. With the exception of the Greeks, who often ran grocery stores even in the most remote villages of Egypt, most of the foreigners were city dwellers who played a leading role in the early development of

the country's commerce and industry. Although many of these onetime foreigners have become nationalized Egyptians, they are still considered as minorities, and many left the country after the 1956 Suez crises.

Since World War II, the vexed issues of Unity and Arab leadership have centred around Egypt. Alone among the Arab States, Egypt has consistently conducted herself as a regional "great power", with interests and influence throughout the area and beyond. No one else (in the region) can begin to match her in numbers of bureaucrats, teachers, businessmen, bankers, in military officers, engineers, lawyers, doctors, mechanics, journalists, and so on. There are always surplus Egyptian personnel available for technical jobs to be filled in surrounding countries. The Egyptian government is in a position to undertake a wide variety of functions that in other states are performed in skimpy fashion, if at all.

However, Egyptians at mid-century were clearly a poor people, and in comparison with the industrially advanced countries of the world, Egypt is a poor country. The country's per capita income, at around \$ 118, was approximately a tenth of the average British income, and its distribution was very unequal.

Disease, sickness, and early death characterized the existence of almost all who inhabited the Nile Valley and life expectancy for an Egyptian male at birth was only 36 years while an American could expect to live 69 years. Just about a quarter of the population over ten years old could read and write compared with almost complete literacy among the world's wealthy societies.

In general the village population is one with an extremely low economic status, with low but improving literacy rate, and with