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The Experience of Foreign Investment in Egypt under Infitah*

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December 1990

The Experience of Foreign Investment in Egypt under *Infitah**

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Abstract

This paper examines the "open door" (*Infitah*) policy of the Egyptian government toward direct foreign investment (DFI) and the response of foreign investors to that policy during 1974-1989. The impact of the incentives created by the policy on the characteristics of approved projects as well as the role of external factors are analyzed. Also, an attempt is made to assess the contribution of DFI to the Egyptian economy in this period. The evidence reviewed in this paper show that the amount of foreign capital attracted by *Infitah* has so far remained rather limited and, moreover, its growth has substantially slowed down in the 1980s. While factors such as bureaucratic inefficiency may be responsible for the low level of DFI throughout the period, the factor most responsible for the slow down in the 1980s seems to be the country's serious foreign debt crisis since the early 1980s.

I. Introduction

This paper examines the policies of the Egyptian government toward direct foreign investment (DFI) and the response of foreign investors to those policies during 1974-1989. The impact of the incentives created by these policies on the characteristics of approved projects as well as the role of external factors are analyzed. Also, an attempt is made to assess the contribution of DFI to the Egyptian economy in this period. The aim is to identify the main factors limiting the benefits that Egypt can derive from foreign capital and technology.

Since the early 1970s Egyptian policy makers have tried to implement a policy of "open door" (*Infitah*) aimed at revitalizing Egypt's economy through increased liberalization of the country's extensive public sector and, more importantly, through an enhanced role for the private sector. Given Egypt's abundance of labor and scarcity of capital and advanced technology, from the outset direct foreign investment was seen as a key to the success of the Open Door policy. Through Law 43 of 1974, the cornerstone of *Infitah*, foreign investors were encouraged to play an important role in capital formation in Egypt. However, outside the petroleum sector the response of foreign investors, particularly Western multinationals, has been rather lukewarm, and whatever interest existed on their part in the late 1970s seems to have largely evaporated since the mid-1980s.[1] In the last several years, not only has the rate of investment under Law 43 substantially declined, the share of foreigners in such investments has also considerably diminished. These trends have raised serious questions about the effectiveness of the Open Door policy and have marred the prospects for the future development of Egypt through further expansion of the private sector.

The decline of DFI in Egypt has come at a time when the emergence of a serious external debt problem has severely restrained the country's economic growth. This coincidence, which has also been observed in other indebted developing countries,[2] requires close scrutiny since one expects DFI to be highly profitable when the host country is badly in need of foreign exchange. In fact, the view that DFI is a substitute for foreign borrowing has been the basis of a number of recent calls, in Egypt and elsewhere, for debt-equity swaps as a solution to the external debt problem of developing countries. However, the use of debt-equity swaps among heavily indebted countries has so far remained rather limited and DFI and foreign borrowing seem to be more complements than substitutes.[3] In this sense, understanding the causes of the decline of DFI in heavily indebted countries can shed light on the conditions for the success of the proposed schemes for debt-equity swap such as the one being considered in Egypt.

The past studies of *Infitah* have pointed out a number of reasons behind Egypt's difficulties in attracting foreign and domestic private capital. These reasons include the rise of "Islamic fundamentalism," persistence of bureaucratic obstacles, underdevelopment of Egypt's infrastructure, and lack of "political will" on the part of the government or "seriousness" on the part of foreign investors.[4] The evidence reviewed in this paper shows that while most of these factors may have adversely affected DFI in Egypt in the past two decades, they are not among the prime reasons for its decline in the 1980s.[5] Instead, the main culprit seems to have been the foreign exchange crisis that developed as a result of the debt overhang in the 1980s. Besides weakening the domestic markets, the crisis seems to have reduced the ability of the government to assure foreign investors that Egypt's economic policies will remain favorable toward private economic activity and profit repatriation. This observation implies that DFI and debt-equity swaps are unlikely to help much in easing the ongoing foreign exchange crisis. Rather, it will be the resolution of the balance of payments problems through other mechanisms such as export expansion and debt reduction that may bring back to Egypt the more sizable levels of private investment experienced during the 1979-1981 period, when the country was enjoying rising foreign revenues.

In the last few years, following a standby agreement with the International Monetary Fund (IMF) in 1987, the government of Egypt has rescheduled its external debt and has initiated a number of important policy reforms to change the climate for private investment and help mitigate the country's serious economic problems. In particular, the exchange rate and tariff systems have been overhauled to liberalize foreign trade and increase the role of the market in the economy. Also, a new investment code--Law 230 of July 1989--has been introduced to improve the procedures for regulating both foreign and domestic investment. Naturally, the success of these reforms depends on how well they deal with the shortcomings of the past policies and address the fundamental problems currently facing economic activity in Egypt. In this regard, by assessing the performance of the past policies, the present study is expected to help shed light on the possible outcomes of the recent reforms.

The organization of this paper is as follows. Section II provides the necessary background regarding the history of foreign investment and economic conditions in Egypt. Section III examines the evolution of Egypt's foreign investment code and the response of foreign investors. Section IV analyzes the characteristics of Law 43 projects and evaluates their impact on the Egyptian economy. Section V focuses on the causes of the decline in investment under law 43 in the 1980s. Finally, Section VI contains a summary and some concluding remarks.

II. Background

Egypt entered the twentieth century under the British rule with an economy highly specialized in cotton production. Except for the industries and infrastructure directly related to the production and export of cotton, very few sectors were developed. Moreover, the industrial, financial, agricultural, and urban land companies that did develop were mostly dominated by foreigners, particularly the British and the French.[6] The nationalist movement that began to shape the economic policies in Egypt after World War I tried to mobilize domestic capital and to encourage industrialization through import substitution. However, Egyptian industrialists and bankers continued to seek the cooperation of foreign capital, which maintained its dominant position in the country's industry and finance.[7] The moderate import substitution policies of post-World War I met with some success, particularly after World War II, and eventually resulted in increased economic diversification.[8] However, income per capita in 1952 was no higher than what it had been in 1914 and income distribution was perhaps more concentrated.[9]

Following the tripartite British, French, and Israeli aggression against Egypt in 1956, all British and French property was sequestrated. Subsequently, foreign investment came to a halt and by the early 1960s, after a number of wide-ranging socialist laws were enacted, no foreign capital remained in the country except for small amounts in a few oil-exploration and pharmaceutical joint ventures with the government. The socialist laws also strangled the domestic private investment. Almost all large industrial and financial establishments became state-owned and foreign trade was entirely monopolized by the government. These changes led to gross inefficiencies in the economic system which, together with a series of political difficulties mounted in the 1960s and early 1970s, considerably slowed down Egypt's pace of economic growth.

In the early 1970s, the Egyptian government under President Sadat was convinced that a major reorientation of the economy toward greater participation by domestic and foreign private investors was essential for resolving the country's economic dilemmas. Following Egypt's success in the 1973 war with Israel, the stage was ready for new policies to be introduced. This process led to the enactment of Law 43 and the birth of the Open Door policy in June of 1974. The shift in Egypt's international alliances, implied by the new policy, brought about foreign aid and cooperation from the West as well as from the oil-rich Arab countries. The contemporaneous rise in the price of oil, on the other hand, enhanced the flow of Arab capital into Egypt and increased job opportunities for Egyptians in other Arab countries. By late 1970s, revenues from oil exports, foreign aid, remittances from workers abroad, and earnings from the Suez Canal--which had reopened after the 1973 War--brought Egypt unprecedented amounts of foreign exchange and rising incomes.

The overall effects of the above developments on the Egyptian economy can be seen in Table 1, which presents the data concerning gross domestic product, gross investment, and the balance of payments situation of Egypt since 1974.[10] Large injections of foreign exchange in the second half of the 1970s allowed greater capacity utilization and substantial increases in investment, leading to rapid GDP growth. Although foreign debt was being accumulated at relatively high rates, the sharp increases in the foreign exchange receipts from various sources made the future of Egypt look quite optimistic.

However, the above picture started to change in the early 1980s when it became clear that the high price of oil would not be sustained for long.[11] While Egypt's large import bill proved difficult to reduce, foreign exchange revenues, which were largely dependent on the price of oil, started to decline and the burden of the external debt began to loom ominously in the horizon. Table 1 shows that while real investment and the growth rate of real GDP have been declining since 1983, Egypt's balance of payments has continued to deteriorate. Table 2, where the structure of expenditure on GDP is presented, further reveals that the continued growth of private consumption and the relative decline of exports have been the main culprits behind the widening of the resource gap in the mid-1980s. Although the government has more or less managed to limit its consumption expenditure in recent years, private consumption has remained strong largely due to a high growth rate of population as well as an enormous consumer subsidy program financed by the government.

Given Egypt's population growth rate of about 2.5% per year, the GDP growth figures for 1986-1988 shown in Table 1 indicate the possibility of a stagnant or even declining GDP per capita during those years. This observation, together with the mounting foreign debt and the rapidly declining investment level reflect the significant resource constraints and pessimism that have come to prevail in Egypt since the mid-1980s. The recent successes in debt rescheduling and policy reform, however, provide some hopeful signals for the possibility of improvements in the country's economic conditions during the 1990s.

The stagnation of foreign exchange revenues and the sluggishness of the decline in imports that led to the rapid rise of external debt in the 1980s were to some extent due to the foreign exchange policies of the Egyptian government. Since these policies have also affected the amount and pattern of investment under Law 43, in the rest of this section we briefly review their main charateristics.

Egypt has followed a multi-tier exchange rate policy which has been constantly in a state of flux. However, the general characteristics of the foreign exchange system since the mid-1970s can be summarized by distinguishing three official foreign exchange pools and a "black market" one (see Table 3).[12] The official pools consist of the Central-Bank pool, the commercial-banks pool, and the "own-exchange" pool. The sources of foreign exchange supply for the Central-Bank pool are revenues from the Suez Canal and from the exports of oil, cotton, and rice. The resources available in this pool are used for imports of commodities deemed basic such as wheat, flour, and fertilizers. Most imports of the public sector, certain imports of the private sector, and authorized capital transactions are channeled toward the commercial-banks pool, which receives its resources from the foreign exchange earnings and transfers of public and private sectors. Direct imports by the private sector to a large extent depend on the own-exchange pool, which is mainly supplied by tourist receipts and workers' remittances. It should be noted that the exact receipt and payment categories covered by the foreign exchange pools described above have been changing over time and especially the line between the own-exchange and black market pools has been quite fluid. Moreover, at times individual pools have been partitioned into several segments with somewhat different exchange rates applying to each segment.

The evolution of the typical exchange rates (U.S. dollars per Egyptian pound, LE) applicable to each pool since 1976 can be seen in Table 3. The officially set basic exchange rate, which applies to the Central-Bank pool, has always been kept highly overvalued. The commercial-banks rate (formerly called the parallel rate) has also been directly or indirectly set by the government. But, for several years prior to 1981, it was maintained close to the "free-market" (own-exchange and black-market) rates. In that period, the abundance of foreign exchange maintained the free-market rates at relatively high levels and even caused them to appreciate in 1977. Since 1981, however, the free-market rates have rapidly depreciated, but the commercial-banks rate has lagged behind and, at times, has become quite overvalued (see the last column of Table 3).

Since the late 1970s, there have been several attempts to unify the numerous exchange rates in Egypt, but most of them have proven temporary and ineffective. In 1979, the basic and commercial-banks rates were unified, but until August 1989 the basic rate was kept at LE1=$1.43, which by then amounted to more than 3.5 times the commercial-banks rate. In the first half of 1985, the commercial-banks rate, after being maintained at LE1=$1.20 since 1980 and appreciating to more than 160% of the free-market rates, was substantially devalued. But it was allowed to appreciate again and by the end of 1986 it was about 140% of the free-market rates. In May

1987, in connection with the IMF standby agreement, once more the government brought the commercial-banks rate closer to the free-market rate and set up a committee of bankers to determine it on a daily basis. This time the commercial rate has generally been kept close to the free-market rate, although at times the differential has reached over 20% of the latter. Due to the importance of the commercial-banks rate from a business point of view, it is quite likely that these discrepancies together with the continued uncertainty about the commitment of the government to unify and liberalize the exchange rate system have significantly contributed to the high demand for imports and lagging supply of exports, thus exacerbating Egypt's external debt and resource constraint problems in the past decade.

III. The Evolution of the Foreign Investment Code in Egypt and the Response of Foreign Investors

The renewed interest of the Egyptian government in foreign investment was officially expressed for the first time in Law 65 of 1971 concerning the investment of Arab funds in Egypt.[13] Although this law mainly addressed the issue of Arab foreign investment in Egypt, it also welcomed non-Arab foreign capital subject to approval by the cabinet and ratification by the President. Law 65 together with the new constitution of 1971 and a series of legislative changes that gave guarantees for the "protection of private property" generated a great deal of interest among Western as well as Arab business communities toward investment in Egypt. Although very few foreign investment projects were implemented in the early 1970s, the Egyptian government was convinced that a more comprehensive foreign investment code would attract substantial amounts of foreign capital. This process led to the enactment of Law 43 of 1974, which opened up the door for foreign investment from both Arab and non-Arab sources.

To facilitate the process of foreign investment and to implement the provisions of the Law, a new organization, named the General Authority for Investment and Free Zones, was established under the auspices of the Ministry of Economy. The Authority was charged with the responsibility of identifying appropriate projects, contacting foreign investors, assessing the proposed projects, and supervising the process of investment, operation, and profit repatriation of the approved projects. The Authority was also expected to study Egypt's investment laws and regulations and to make recommendations for improving the foreign investment code.

Law 43 did not stipulate a strict minimum percentage of local participation for investment in most branches of the economy. However, it conveyed a clear preference for joint ventures by requiring a two-thirds majority vote of the members of the Authority's Board of Directors for approving projects with no local participation. Also, construction contracting companies and banks dealing in local currency were required to have a majority Egyptian equity. The only sector from which foreign (non-Arab) investors were completely barred was housing.

Although the stated intention of Law 43 was to attract foreign technology as well as foreign capital, it did not deal much with the problems of technology transfer. Transfer of technology was encouraged as part of DFI packages by permitting royalty payments to be included in the initial invested capital. Some discretion was also given to the Investment Authority to deal with the technology content of proposed projects on a case by case basis through some adjustments in the duration of the tax exemption period. However, the Law did not discuss the issues of "unbundling" DFI and imports of technology by Egyptian enterprises without foreign participation.[14]

The incentives and guarantees for foreign investment included: (1) a promise to refrain from nationalization and confiscation of invested capital except by judicial procedures within the framework of international convention; (2) exemption from a number of regulations restricting labor relations, especially wage and salary payments, in the rest of the economy; (3) a 5 to 8 year exemption from profit tax;[15] (4) a deferment on the payments of customs duties; and (5) a permission to import without a license (but subject to inspection) the equipment, machinery, and material considered "necessary" for the installation and operation of the projects.[16] However, there was no guarantee of foreign exchange provision for imports or profit repatriation. In particular, while clearly applying the highly overvalued basic exchange rate to the incoming capital, the law was vague about the particular exchange rate among the multitude of prevailing ones to be applied to the repatriation of capital and profits. Also, the salaries of expatriate employees were made subject to the general income tax in Egypt.

Another important provision of Law 43 was the designation of certain areas around the country as "free zones." The purpose of the free zones was to encourage export-oriented investment in Egypt by providing the possibility of storing, packaging, processing, or manufacturing goods in a transit situation without having to go through the customs process or to pay the usual duties and taxes.[17] Each free zone was endowed with a board of directors to manage the zone and to supervise the flow of goods, capital, and personnel into and out of the zone in order to ascertain proper conduct of the projects and to ensure the insulation of the rest of the economy from these zones. Movement of goods between the free zones and the rest of the country was made subject to the procedures governing the usual imports and exports, while the movement of goods between the free zones and the rest of the world was made only subject to an annual duty of less than 1%. Transit goods, however, were exempted from such a fee. To distinguish between the projects in the free zones and those in the rest of the country, below we will refer to the latter as "inland" projects.

In the fiscal year 1974/1975, following the enactment of Law 43, well over a hundred projects were approved (see Table 4). However, this early enthusiasm subsided somewhat in 1975/1976 due to several problems that foreign investors discovered in the provisions of the Law. In particular, it was recognized that the procedures for the approval of investments and their imported inputs, the regulations and the exchange rates applying to the repatriation and reinvestment of capital and profits, and the tax rule applying to profits and to the salaries of foreign employees were either ambiguous or problematic. Soon a process of dialogue between the Egyptian government and the representatives of foreign investors from various countries started and problem areas were closely studied. This process culminated in the amendment of Law 43 by Law 32 of 1977. Among other things, the amendment set rules for expediting the approval procedure for the proposed projects, opened up new fields of investment, exempted the salaries of foreign employees from taxation in Egypt, and made the "highest prevailing official exchange rate" (i.e., the commercial-banks rate) apply to all movements of capital and profits.

Table 4 shows that a backlog of projects with large proposed investments was approved in 1976/77. But, surprisingly, this was by no means a consequence of the amendment in Law 43. In fact, the bulk of those approvals came well before the enactment of Law 32, perhaps as an encouragement for foreign investors.[18] Yet, contrary to the expectations of the government, during the first couple of years after the amendment the volume of proposed investments declined.

Despite the fact that the legal framework of foreign investment in Egypt did not change after 1977, the interest of foreign investors was renewed in 1979 and project approvals began to rise rapidly. However, since the fiscal year 1981/82, with the exception of 1983/84, the proposed capital of new projects approved under Law 43 has declined.[19] This decline has been so rapid that by 1985/86 the nominal capital of inland projects approved annually had fallen to about one third of its 1980/81 level. The third column of Table 4, where these nominal values are converted to US dollars at the commercial-banks exchange rate, shows that the decline in terms of US dollars may have been as much as 80% of the 1980/81 level.[20] Although the 1986/87 and 1988 data show an improvement over the previous two years, they are still far below the approval rate at the beginning the decade. Note that a more or less similar trend can be observed in the case of free-zone projects.

In the 1980s, not only did the rate of proposed investments under Law 43 decline, foreigners also sharply reduced their participation in such projects. This can be seen in Table 5, which shows the data concerning the participation of the nationals of different countries in Law 43 projects. Note that even Arab countries, which after a period of withdrawal in the wake of the Camp David Accord in 1979 had revived their investment in Egypt by 1982, significantly lowered their participation in the mid-1980s. As a result, at least since 1984 Egyptian capital has come to pick up about 70% of the equity of inland projects, while in 1977 this share was only 50%.[21] However, as in the case of total investment approvals, there seems to be some indication in the most recent data that this situation may have started to change. These changes, as we will argue below, are likely to be the consequence of debt rescheduling and policy reforms implemented since 1987.

Matters are somewhat different in the case of free-zone projects, where Egyptian equity participation is much smaller than among the inland ones.[22] In particular, in the mid-1980s the share of Arab countries in the free-zone capital considerably increased. This was partly because Egyptian investors--who typically use these zones for storing their import merchandise awaiting the customs process--curtailed their activities due to the increasing shortage of foreign exchange. But, as indicated by the 1989 data, the recent changes in the foreign exchange policy and availability may have made the free zones somewhat more attractive to Egyptians businesses again.

Project approvals, of course, do not necessarily imply actual investment. In fact, for many projects, obtaining approval has been the end of the road; either investors had lost their interest in the projects or they had found the implementation far more difficult and costly than indicated by the initial assessments. The government of Egypt has frequently voiced concern about the seriousness of some of foreign investors and has weeded out many of the inactive projects.[23] However, at least until recently, this did not help speed up the implementation process. In fact, between 1985 and 1987 the capital stock of Law 43 projects under operation grew very sluggishly (see Table 6). Note that there was a virtual stagnation in the free zones and the capital stock of operating inland projects grew more slowly than the approved capital (see Table 7). These observations show that the slowdown of the actual investment in the mid-1980s must have been quite strong. The trend between 1987 and 1989, however, seems somewhat more promising.

It is important to note that after 1985 the actual capital formation in Law 43 projects has also declined relative to the total investment in the economy. This tendency can be seen in the last column of Table 8, which reports the WPI(wholesale price index)-deflated value of investments in operating nonfinancial projects as a percentage of the WPI-deflated gross fixed capital formation since 1974 in the country as a whole.[24] The fifth column of this table further shows that the same result is obtained if the comparison is restricted to the capital formation in the "relevant" sectors; i.e., the sectors to which Law 43 projects were expected to contribute most.[25] Note that these figures indicate that while the role of Law 43 projects in the growth of Egypt's capital stock has not been negligible, it has remained rather modest and, if the 1985-1987 trend continues, it may become quite marginal.

The last row of Table 6 indicates that by the end of June 1989 Egypt had received a total of $8545.8 million worth of investment under Law 43, of which

$5112.2 million was equity and the rest was borrowed domestically and abroad. Although these levels of investment and equity are not by any means negligible, it should be kept in mind that, given the pattern of foreign participation, only about $1850 million of the equity has been contributed by non-Egyptians. Moreover, these figures include a large amount of financial capital which does not directly contribute to productive capacity. Excluding financial projects, the volume of investment diminishes to $6075.9 million with $2816.2 million worth of equity and about $1019 million foreign participation.[26] Thus, 15 years after the initiation of *Infitah*, the amount of foreign equity actually invested in Egypt stood at about $0.8 billion in the form of financial capital and just over $1 billion in the form of fixed capital, which are not particularly large when compared to the stock of DFI in many other developing countries with active foreign investment policies.[27]

The new investment law introduced in 1989 has a close resemblance to Law 43 and its main purpose is to extend the benefits of the latter to domestic capital by unifying the regulations applicable to all private investments regardless of their sources. Law 230 maintains its predecessor's no-guarantee clause for the repatriation of profits. However, it expands the possibilities for tax exemptions and especially stipulates a 2-year extension in the tax holiday if the local content of a project exceeds 60%. It also obliges the Investment Authority to facilitate the project-application procedure and speed up its decision-making process. Furthermore, it provides a legal vehicle for debt-equity swaps by allowing foreign nationals acquire existing domestic equity. In the new law, an attempt is also made to prohibit the imposition of price or profitability controls on approved projects. But, this prohibition is made essentially ineffective by making exceptions for cases deemed "necessary" by the Council of Ministers. Finally, unlike Law 43, the new investment code permits foreign investment in the housing sector, while excluding financial and consulting projects from its privileges.

IV. Characteristics of Law 43 Projects

In this section, we review the characteristics of Law 43 projects to examine the response foreign investors to the Open Door policy in greater detail. Issues of interest that can be analyzed here given the availability of data for the projects are the trends in their wage rates, employment, output, sectoral composition, factor intensity, profitability, and foreign exchange balance.

IV.1. Sectoral Composition of Investments in Law 43 Projects

One of the most controversial aspects of *Infitah* since its inception has been the sectoral structure of capital in Law 43 projects. In the first decade of *Infitah*, financial projects dominated the approved investment portfolio (see Table 9) and, since such projects were relatively easy to implement, their share in the capital of operating projects was even more significant (see Table 10). This aspect of Law 43 projects was seen by many critics as an evidence that the Open Door policy ultimately encourages "unproductive" services and speculation, while neglecting industrialization.[28] However, as the trend and later developments in the pattern of Law 43 investments indicate, this concern should no longer be a serious one. In fact, industry has been assuming an increasing role among *Infitah* enterprises and since 1980 has clearly outweighed finance in terms of share in the capital of approved projects.

The early rise of finance companies among Law 43 projects seems, to some extent, natural since, given the limitations of the existing state-owned banks, new financial institutions were needed to facilitate the implementation of projects in other sectors. Most of the finance projects were, indeed, investment companies and banks designated to operate in foreign currency, where other projects could open foreign currency accounts and maintain the funds necessary for their purchases and transfers abroad. However, the proliferation of finance projects had another, perhaps more important, reason as well: the foreign exchange boom toward the end of the 1970s brought quick and high profits to businesses financing imports. The decline of foreign exchange earnings and inflows in the 1980s, on the other hand, reduced the private sector's interest in creating new foreign currency banks. In fact, after a backlog of proposals for financial projects were approved in 1988, the government's omission of financial projects from the list of those covered by Law 230 of 1989 did not generate much opposition in Egypt's business community.[29]

The observation that in Egypt, industry rather than finance and services has been gaining weight in the portfolio of Law 43 investments is quite interesting because this trend seems to be exactly the opposite of the one observed in the structure of DFI in most other countries.[30] However, a close examination of the data reveals that this difference is partly due to the fact that the bulk of Law 43 capital belongs to Egyptian nationals, who have reduced their rate of investment in service projects more than in the industrial ones. Thus, the rise in the share of industry in the foreign part of Law 43 investments is actually muct smaller than indicated by Tables 9 and 10. The rest of the difference is essentially a consequence of the decline in Arab investment, which has a significant presence in Egypt. This decline has particularly hurt service and finance projects because these are the fields in which Arab investors have comparative advantage and, therefore, have concentrated their activities. These facts can be seen in Table 11, where we have compiled the shares of five country groups in the sectorally-disaggregated capital of inland projects approved by December 31st of 1984 and 1987. As this table shows, during the mid-1980s non-Arab countries have increased their participation in finance and service projects much more than in the industrial ones. In fact, combining this data with the cumulative volumes of approved investment in 1984 and 1987 shows that between these two years the share of services in non-Arab DFI in

Egypt has increased from 26.1% to 30.6%, while the corresponding share for industry has declined from 46.8% to 45.9%. Thus, the trend in the sectoral pattern of non-Arab DFI in Egypt has more or less been similar to the one observed in the rest of the world.[31]

An important reason why Egyptian investors have maintained their interest in construction and industrial projects more than in service and finance projects is the relaxation of labor regulations under Law 43. The labor laws applicable to the formal-sector companies in the rest of the economy impose restrictions on wage and salary payments and require worker representation on the board of directors. As a result, these laws tend to affect manufacturing and construction firms, which must be labor intensive if they are to be profitable, more than formal finance and service enterprises, which are usually capital and skill intensive. In the case of construction projects, however, the large and rising share of Egyptians has another, perhaps more important reason as well: Winning construction contracts requires a great deal of familiarity with the local environment and bureaucracy, and this is an asset in which domestic entrepreneurs have a clear advantage. We will return to these issues below when we examine other aspects of Law 43 projects.

To see how Law 43 projects have affected the level of investment in individual sectors of the Egyptian economy, in Table 8 we have computed the shares of each project category (except finance) in the total post-1974 fixed capital formation of its relevant sectors. As the table shows, most of these shares have remained rather small and have started to decline after 1985. Only construction projects, which comprise a relatively small percentage of the Law 43 portfolio, seem to have captured a major share in their corresponding sector. However, given the stagnation of Egypt's construction sector during the 1980s (see Table 12) and the very large and rapidly rising share of domestic capital among construction projects (Table 11), it seems that in this sector, Law 43 has mostly attracted investments that would have taken place anyway. In particular, many domestic entrants, as well as reentrants, to the construction sector in the 1980s have tried to constitute themselves under the foreign investment code in order to take advantage of its provisions.

In the free zones, as Table 13 shows, the bulk of investment has been approved for finance, storage, and other service projects. Many of these projects have been used as transit facilities for goods produced elsewhere and destined for Arab countries. The rest have mostly been channels of importing goods into Egypt, rather than the means of producing goods for export. In recent years, many of the free-zone projects, particularly the storage ones, have closed down or abandoned their activities because of import reductions in Egypt and other Arab countries. As a result, the total number of projects approved for the free zones has declined and their total real capital has virtually stagnated. This observation, as well as the short gestation period of financial and storage projects, also explains the high implementation rate among approved free-zone investments documented in Table 7. Note that the limited role of industrial projects in the free zones reflects the weak competitiveness of Egyptian manufacturing in world markets, which, to some extent, is the consequence of currency overvaluation.

IV.2. Employment

One of the important goals of *Infitah* was to encourage private entrepreneurs to create productive employment for Egypt's rapidly growing workforce. The success of Law 43 in this respect has been mixed. According to Table 14, which presents the available data on total employment in Law 43 projects, by 1989 inland and free-zone operating projects had created a total of 173,200 jobs. Although the 1989 data for the total employment in Egypt is not available, a simple extrapolation from previous years shows that only an insignificant fraction (less than 1.5%) must have been employed in Law 43 projects. Restricting attention to the relevant sectors, which employ about 70% of Egypt's labor force, hardly changes this picture (see the columns under RSE1 in Table 14). Even when agriculture is dropped from the list of the relevant sectors, which leaves only about 33% of the total labor force for comparison purposes, the share of Law 43 employment in the labor market remains rather tangential (see the columns under RSE2). However, in terms of the increase in employment since 1974, the role of Law 43 seems to be more tangible (see the columns under RSE3). This role has been especially significant in the 1980s when more employment-generating (nonfinancial) Law 43 projects started their operations and the rest of the economy slowed down. In fact, between 1979 and 1987, Law 43 projects added 102,300 jobs to the Egyptian economy, which is almost 15% of the total new jobs generated during the same period in the relevant sectors except agriculture. Note that according to Table 14 employment creation by inland projects between 1987 and mid-1989 was also rather considerable.

Two caveats are in order concerning the above assessment of the role of Law 43 projects in the Egyptian labor market. First, as pointed out above in the case of investment data, it is difficult to ascertain how many of the Law 43 jobs would not have been created in the absence of the policy. Second, the employment figures in Table 14 include the foreign workers hired by the projects. Unfortunately, no data about the share of foreigners in the total employment of operating projects is available. However, the available projected employment figures for projects approved up to the end of 1982, shown in Table 15, indicate that this share must be quite small (less that 2%). Thus, correcting for the presence of foreign employees should not change the implication of our observations concerning employment.

Table 16 shows that from a sectoral point of view, Law 43 employment has become increasingly industrial, which is consistent with the sectoral composition of investments. Also, in line with our previous findings, industrial projects turn out to be second to the construction ones in terms of the share in the total employment of the relevant sectors. This comparison is made in Table 17 where employment and wages in Law 43 enterprises at the end of 1987 are presented. Note that operating projects account for 8.9% of employment in the construction sector and 4.6% of employment in the industrial sector. These shares would rise to 139.5 and 12.1, respectively, if the bases are the 1974-1987 increases in sectoral employments. Note that, as pointed out before, total construction activity in Egypt did not grow much between 1974 and 1987 and it is quite likely that in this sector Law 43 projects have basically replaced the existing jobs.

Finally, Table 14 shows that since 1985 the projected employment in approved projects has declined. This indicates that although during the 1980s parts of the Egyptian labor market may have benefited from Law 43 investments in a tangible way, the prospects for further increases in such benefits does not seem to be particularly bright in the foreseeable future.

IV.3. Wages

Wages paid by the projects reflect the type of jobs and incomes generated by Law 43 projects. Table 18 summarizes the available data regarding the average wage rates expected to be paid by approved projects as well as those actually paid by the operating ones. Note that the average wage rate in the operating inland projects was initially much higher than the average wage rate in the relevant sectors, but in the 1980s it has fallen far behind. There is no comparable data for free-zone projects before 1986, but the table shows that in the second half of the 1980s those projects have been paying relatively high wages. The main reason for this wage pattern is the dominance of finance and service enterprises among inland projects during the first decade of *Infitah* and among free-zone project throughout the period. As can be seen in Table 17, finance and service projects typically pay very high salaries compared to the ones in other sectors. The reason is that most formal jobs in these two sectors, especially in finance, require highly skilled and motivated workers.

According to Table 17, in 1987, construction, finance, and service projects paid average wages comparable with those prevailing in their corresponding sectors. In contrast, the average wage rate in agricultural projects was much higher than the one offered in their relevant sector. This difference is mainly due to the fact that the jobs created by Law 43 projects in agriculture are formal and involve activities distinct from the typical, low-pay, informal employment in that sector. In fact, they are more similar to construction jobs and, as a result, pay similarly, too.

The average wage rate in industrial projects is also quite different from the one in their relevant sectors. But, in this case, Law 43 wages are much lower, which is a surprising observation because industrial projects were expected to create relatively high-paying jobs (compare the projected wages for different activities in Tables 15 and 17). However, this outcome may be explainable by the exemption of Law 43 companies from the restrictive labor laws applicable to the industrial firms in the rest of the economy, especially in the public sector. The relaxation of wage-floor and worker-representation requirements particularly benefit manufacturing firms intensive in unskilled labor, and it is such projects that have mostly been implemented under Law 43. This point is confirmed by the observation that the average wage rate in operating industrial projects is close to the unskilled construction wage rate.[32] Note that the exemptions have not had the same effect on service and finance projects because, as pointed out above, the wages and salaries of formal jobs in those sectors are mostly bound by incentive and skill constraints rather than by labor laws.

A comparison of projected wage rates with those actually paid provides some insights about the types of projects that are more likely to be implemented. As Table 17 shows, in 1987 projected wage rates in all lines of activity were higher than the actual ones. This is, of course, partly due to the expected inflation by the time projects are implemented. But, note that the differential is much larger in the case of industrial projects and rather small in the case of finance, service, and free-zone ones. This pattern is unlikely to be entirely due to the longer gestation period of industrial projects since a comparison of the 1987 realized wages with those projected in 1982 (Table 15) shows that industrial wages were overestimated even with a 5 year lead and despite the high actual inflation rates in that period. Therefore, if one further rules out the possibility that the expectations of wage inflation have been unrealistically high in the case of industrial projects alone, it can be concluded that in industry, projects with less skill requirements have been more profitable and easier to implement. This inverse relationship between profitability and skill requirements does not seem to be important for projects in other sectors, partly because Law 43's the relaxation of the labor regulations in not important for them. This issue is obviously worth pursuing further in future research because identifying the factors that make projects attractive to private investors can be helpful in designing future policies and assessing the potentials of proposed investments.

V.4. Factor Intensity

The question whether transnational corporations use appropriate technologies in less developed countries or not has been the subject of a heated controversy. Our data set, unfortunately, is rather crude and does not allow a precise comparison of technologies used by domestic and foreign enterprises in Egypt. We, thus, restrict our attention to a sketchy examination of capital and labor intensity in Law 43 projects. The focus is, of course, on nonfinancial projects.[33]

At an aggregate level, the average capital intensity of nonfinancial Law 43 projects seems to be higher than that of investments in the rest of the economy.

This can be seen by comparing the data in Tables 8 and 14. For example, in 1987, operating inland projects accounted for about 12% of total post-1974 investment in the relevant sectors, while contributing no more than 9.3% of the increase in employment even when the agricultural sector is excluded. A similar pattern can be observed at a sectoral level, except for construction projects that may be rather labor intensive (compare the last row of Table 8 with the columns under RSE1 and RSE4 in Table 17). Note that industrial projects are only slightly more capital intensive than their counterparts in the rest of the economy and it is mainly agricultural and service projects that are responsible for the relatively high average capital intensity of Law 43 investments (see also Tables 9 and 16). Interestingly, this pattern of capital intensity seems to be directly related to the relative wage pattern of the projects discussed above, with higher wages being associated with greater capital intensity when compared to the relevant sectors in the rest of the economy.

IV.5. Profitability

The Investment Authority has carried out a number of surveys to determine the profitability and financial performance of Law 43 projects. Here, we examine the results of the 1985 survey which are available to us and are reported in Table 19. This survey covered about 82% of the number (and 87% of the capital) of projects operating during 1984.

As the last column of Table 19 shows, the average profit rate of these companies has been quite low, especially considering the inflation rates of at least 10-15% in the early 1980s. This is particularly true in the case of agricultural and construction projects, which are exactly the activities that have lost their shares in the total fixed investment under Law 43 during the 1980s (see above and Table 10). It should, however, be pointed out that the average profit rates mask the fact that there has been a great deal of variation within each sector (see Table 19). Notably, most of the losing enterprises have been those subscribed by the public sector.[34] In fact, some of the companies fully controlled by the private sector have realized profit rates in excess of 30% of their paid-up capital, which seem attractive even after discounting for inflation. Nevertheless, given the fact that only a fraction of the projects have realized such profits and given the *ex ante* possibility of failure, it is understandable why investing in Egypt has had little appeal to private investors.

IV.6. Output and Value added

There is no direct data available concerning the value added of Law 43 projects. However, using the profitability and wage-bill figures discussed above we may come up with a rough estimate of this variable for 1984. Note that net profits of all surveyed companies in 1984 were LE 153.3 million (Table 19). Since these companies accounted for 87% of the total operating inland capital, we pro-rate the above figure and assume that total net profits were in fact LE 176.2 million--which is likely to be an overestimate. On the other hand, from Tables 14 and 18 we find that the wage bill of all operating inland companies in 1984 was LE 96.0 million. Thus, the total value added of inland projects in that year must have been about LE 272.2 million, which amounts to 0.95% of the current GDP of the economy as a whole and 2.5% of the GDP of the relevant sectors. These figures seem to be larger than the shares of Law 43 projects in total employment. However, they are still quite small and, indeed, only a fraction of the share of *Infitah* projects in the economy's capital formation, reflecting, once again, the relatively high capital intensity of these projects.

Another indicator of the value added of nonfinancial Law 43 projects is the value of their gross output, for which data is available for a number of years before 1984. Table 20 shows that even in terms of gross output these projects have contributed a relatively small, although increasing, share of the GDP.

The limited impact of Law 43 projects on production in Egypt may also be inferred from the sluggish growth of the sectors where nonfinancial projects have been concentrated (compare Tables 8, 12, and 20). This is, in a sense, not very surprising because the structure of the Egyptian economy continues to be largely determined by the activities of the public sector, which in the late 1980s, despite 15 years of emphasis on the development of the private sector, still accounted for about two thirds of total investment.[35] The only sector where government investment has remained limited and *Infitah* projects have clearly enhanced growth is finance and trade. Financial projects, in particular, have had an important impact in this respect and have greatly facilitated financial intermediation in the private sector.[36] However, it should be pointed out that, at the same time, *Infitah* banks have been blamed for channeling a large part of worker remittances away from domestic markets and toward international capital markets.[37]

IV.7. Foreign Trade Aspects

The most disappointing aspect of operating Law 43 projects has so far been their export performance. In 1983, out of 148 operating projects that had export plans, only 30 had actually exported goods valued about LE 15 million.[38] Tourism and service projects also earned LE 63 million worth of "invisible" exports. Thus, the total foreign exchange earnings of Law 43 projects in 1983 was about LE 78 million or less than 1% of foreign exchange receipts of the country in that year. The import substitution effect of the projects is believed to have been more substantial. The Investment Authority has estimated the import replacement contribution of Law 43 projects in 1983 at LE 887 million. Given the LE 224 million commodity imports of these projects, their net import-saving effects amounts to LE 663 million or about 7% of the current foreign payments of Egypt in 1983. Profit repatriations have not been taken into account in these figures because of lack of data for 1983. But, they are unlikely to change the picture much since, according to one estimate, the total repatriation between 1976 and 1985 has been LE 370 million, which is quite small compared to the likely foreign exchange savings during the same period.[39]

The above figures also indicate that import substitution has by far been the most common type of activity among Law 43 projects. Note that given the total output value of LE 1368 million in 1983 (see Table 20), the output share of import substitutes must have been 64.8%, with nontraded goods and exports (both visibles and invisibles) accounting for 23.8% and 11.4%, respectively.[40] Lack of interest in producing for exports seems to be related to the overvaluation of the domestic currency during the 1980s, which has also afflicted industrial activity in the free zones. On the other hand, import substitution projects are encouraged through high tariff rates and other import restrictions.[41] The recent policy of keeping the commercial exchange rate close to the free-market rate and reducing tariffs may change this picture. In fact, the somewhat increased rates of project approvals for the free zones during 1988 may be a consequence of this policy.

V. Causes of the Decline in Investment under Law 43 in the 1980s

Given that the 1977 amendment of Law 43 had removed the basic legal difficulties in the way of foreign investment and that foreign investors had indeed considered Egypt an attractive place for investment at least between 1979 and 1981, the question arises as to why project approvals declined so sharply in the 1980s. The answer is certainly not in the lack of interest on the part of the Egyptian government since there is no evidence of any increased number of proposed projects being turned down. However, the highly inefficient Egyptian bureaucracy may have been an important discouraging factor. But, red-tape is by no means a new phenomenon in Egypt and it is not clear why the situation may have worsened (if it has) in the 1980s. In fact, since 1977 the government has maintained that it is trying to simplify the procedures for the approval and licensing of proposed projects by making the Investment Authority more autonomous. Thus, while bureaucratic obstacles may have kept foreign investment levels low from the outset of *Infitah*, they are unlikely to be responsible for the observed decline in the 1980s.

A second obstacle for investment under Law 43 may have been inadequate infrastructure. To assess the relevance of this factor for the reduction of project approvals in the 1980s, we examine the sectoral structure of production and investment presented in Tables 12 and 21. Note that the use of constant-price indices in Table 12 helps us identify the sectors growing faster than the average by their rising shares. Although the occasional changes in the base year make long-term comparisons difficult, it can be seen that at least since 1981 the GDP shares of infrastructural sectors--electricity, transportation and communication, and public utilities--have substantially increased. This picture seems to conform well with the abundant anecdotal evidence one finds in the literature and news concerning recent improvements in communication and other infrastructural systems in Egypt.[42] The sectoral investment shares given in Table 21 also confirm that until about 1983 infrastructural sectors have been enjoying an increasing priority in Egypt's investment policies. Although some shift in investment priorities can be observed around mid-1980s, it is unlikely that such a shift has led to an immediate deterioration of infrastructure. Thus, the existing evidence on the whole does not support the hypothesis that infrastructural problems have been an important cause of the reduction in Law 43 investments since 1981.

Another factor that may have adversely affected the level of foreign investment in Egypt is the rise of Islamic fundamentalism and the increased instability in the Middle East region in the 1980s. It is possible that the wars in Lebanon and the Persian Gulf together with the assassination of President Sadat in 1981 may have given rise to a concern among foreigners for the safety of their lives and property in Egypt. However, circumstantial evidence suggests that such a concern is unlikely to have been very important or lasted very long. One observation in this regard is Egypt's continued political stability in the 1980s as indicated by the relative orderliness of its parliamentary and presidential elections. Another observation is the increase in tourism in Egypt during the 1980s, which probably would not have happened if foreigners had perceived an increase in political instability. Interestingly, the highest rate of growth in the number of tourists in Egypt between 1981 and 1985 (23%) belongs to the OECD countries whose share in Law 43 projects has declined most.[43]

The rise of interest rates in world markets in the early 1980s may also be another reason behind the decline in DFI at that time. But, again, this factor does not explain the continued decline of such investment in the mid-1980s, especially when one notes that total DFI in developing countries as a whole did not fall much in the early 1980s and, indeed, rebounded and continued to grow after 1982.[44]

We, finally, examine the role of Egypt's balance of payments crisis since the early 1980s, which may provide a more plausible explanation for the decline of foreign investment during the last decade. There are three important channels through which balance of payments problems may affect DFI in a less developed country. First, a decline in the supply of imported capital and intermediate goods reduces the level of income and aggregate demand, lowering the potential profitability of new investments. Second, import shortages increase the relative value of foreign exchange and, as a result, raise the potential gains from DFI. Third, crisis situations raise the incentives of the government to increase explicit or implicit taxation, especially through restrictions on capital and profit repatriation.

If it were not for the third effect, countries facing foreign exchange shortages could provide incentives to make the second effect dominate the first one and, thus, help raise the inflow of DFI. However, in situations of balance of payments crisis, governments have difficulty guaranteeing capital and profit repatriation for the same reasons that such situations arise in the first place: that is, the inability of governments to commit to the repayment of external loans. Note that even when some safeguards can be provided, a government may rationally avoid them fearing abuse by foreign investors. For example, foreign investors may use their repatriation privileges to facilitate capital flight, which can exacerbate the country's external crisis. In fact, most developing countries do not guarantee full repatriation except for export-oriented investments that generate their own foreign exchange and contribute to external revenues. As a result, at the time of balance of payments difficulties the risk factor for DFI rises and discourages capital inflows. This problem is obviously more significant in countries that follow import substitution policies because the currency overvaluation in such countries reduces the profitability of export-oriented projects. The recent experience of the highly indebted less developed countries provides numerous examples of such outcomes.[45]

The situation in Egypt fits the above description quite well. Law 43 and its amendment remained purposefully vague about profit repatriation of projects that are not export oriented.[46] Since the exchange rate applicable to commercial activities was overvalued, there was little incentive to produce for exports and, in fact, the free zones, which were specifically designed for this purpose, failed to grow. As a result, the balance of payments difficulties of the 1980s discouraged private investment in general and foreign investment in particular.[47] In this respect, it is interesting to note that the rate of investment under Law 43, which had surged around 1980 when Egypt's balance of payments situation was promising, declined afterwards when the external position began to deteriorate. Interestingly, the 1989 data indicate that the investment trend of the 1980s may have begun to change after Egypt successfully rescheduled its external debt in 1987 and started to reform its trade and exchange rate policies.

Although the Investment Authority has not imposed any systematic ban on profit and capital repatriation in the 1980s, the chronic shortage of foreign exchange has worked as an impediment to the timely processing of such applications. It is interesting to note that in anticipation of possible restrictions on profit and capital repatriation, *Infitah* firms have tried to use debt rather than equity to finance their investments. The investment authority responded to this tendency in 1981 by restricting the debt-equity ratio of small investments (less than LE 5 million) to 1:1 and that of larger investments to 2:1.[48] The government has also occasionally used various implicit tax or subsidy-reduction mechanisms to restrict the profits of *Infitah* firms. For example, in 1981 the government substantially raised the price of petroleum for Law 43 projects, arguing that the domestic price was subsidized for users who did not enjoy the privileges of the foreign investment code.[49] Note that while such actions themselves can be seen as factors discouraging DFI, the phenomenon that precipitates them is the widening gap between foreign receipts and payments.

VI. Conclusion

The available data on projects established in Egypt under Law 43 show that the success of *Infitah* in attracting domestic and foreign private capital has been rather limited. The stock of such capital accumulated over the last 15 years is still quite small and its rate of increase has declined quite sharply since the early 1980s. Moreover, foreigners have drastically reduced their participation in the new projects, maintaining their equity at less than $2 billion dollars. Although finance, construction, and manufacturing sectors have modestly benefited from Law

43 projects in terms of investment, employment, or value added, the rest of the economy has hardly been touched. Also, the contribution of these projects to Egypt's balance of payments, particularly on the export side, has been minimal.

Over time, the composition of Law 43 investments has shifted in favor of industry. However, the industrial employment opportunities created by these projects are mostly jobs with low pay and little skill requirements. In other sectors, wages and skill requirements of projects are higher, but so is their capital intensity as well.

The generally weak response of foreign investors to Egypt's *Infitah* policy since 1974 can, perhaps, be attributed to quite a few factors, some rooted in economic policies and others beyond the control of the government. However, in the past two decades, the government of Egypt has taken steps in various directions to deal with such factors. In particular, it has developed a detailed foreign investment code and has modified it in consultation with the representatives of foreign businesses in order to reach a satisfactory compromise and to provide guarantees for the security of private property in Egypt. It has also attempted to upgrade the infrastructure and to improve the procedures for project approval and licensing in order to reduce the costs of investing in Egypt. In the meantime, Egypt has enjoyed continued peace and political stability, which must have been positive factors in attracting private investors. Nevertheless, except for the 1979-1981 period, Law 43 has not attracted much capital.

The evidence reviewed in this paper shows that the main factor behind the above pattern of investment response is Egypt's balance of payments situation. Between 1979 and 1981, Egypt enjoyed a large inflow of foreign exchange from various sources and, as a result, foreign investors had little reason to believe that they would have a problem in securing imports for their projects or in repatriating their profits.

On the other hand, the serious external debt crisis since 1981 has reduced the ability of the government to commit to refraining from the adoption of measures that implicitly or explicitly tax the investors. In fact, the *ex post* average profitability of Law 43 firms does not seem to be particularly high and, especially, joint ventures with the public sector have done rather poorly.

The impact of the debt-crisis on DFI has been particularly strong in Egypt because the overvaluation of the domestic currency has reduced the profitability of export-oriented projects, for which profit repatriation could have been less problematic. Ironically, currency overvaluation, which is part of the import substitution policies followed in Egypt, has also been partially responsible for the growth of external debt and the consequent foreign exchange shortage in the 1980s.

An important implication of the above analysis is that the new investment law promulgated in 1989 may not be of much help in bringing about additional foreign investment, unless it is combined with other policy changes. In particular, the debt-equity swap envisioned in the new law may not be a very successful program unless an effective solution to the external debt problem is in sight. Fortunately, such a solution seems to be in the making. So far, most of the debt has been successfully rescheduled and part of it may actually be written off. Moreover, the government has begun to implement a rather comprehensive trade and exchange-rate liberalization policy. The persistence of the government in following this policy remains to be seen. But, already some signs of change in the past trend of foreign investment is evident in the 1988-89 data.

Notes

* I would like to thank Werner Baer, David W. Carr, Bent Hansen, Marvin Weinbaum, and two anonymous referees for their helpful comments.

1. A large part of DFI in Egypt has been in the field of discovery and extraction of oil through joint ventures with the government petroleum company. The characteristics of these joint ventures, however, are quite different from those of the *Infitah* projects. Since the nature and history of foreign investment in the petroleum sector of Egypt is a separate subject in itself, it is not addressed in this paper.

2. See United Nations Center on Transnational Corporations [*UNCTC*], *Transnational Corporations in World Development: Trends and Prospects*, New York: United Nations, 1988, p. 80.

3. *UNCTC* (n. 2 above), p. 74.

4. For discussions concerning the successes and failures of *Infitah* see Robert E. Driscoll, Peggy F. Hayek, and Farouk A. Zaki, *Foreign Investment in Egypt: An Analysis of Critical Factors with Emphasis on the Foreign investment Code* (New York: Fund for Multinational Management Education, 1978); David W. Carr, *Foreign Investment and Development in Egypt* (New York: Praeger Publishers, 1979); Robert L. Ferrar, "Private Investment in the Egyptian Economy," in Salah El Sayad, ed., *International Business and the Middle East* (Cairo: American University of Cairo Press, 1979); Mark N. Cooper, *The Transformation of Egypt*, (Baltimore: John Hopkins University Press, 1982); Henry J. Bruton, "Egypt's Development in the Seventies," *Economic Development and Cultural Change*, 31 (July 1983): 679-704; Clement H. Moore, "Money and Power: The Dilemma of Egyptian *Infitah*," *Middle East Journal* 40 (Autumn 1986): 634-650; Anthony McDermott, *Egypt from Nasser to Mubarak: A Flawed Revolution*, (New York: Croom Helm, 1988); Nemat Shafik, "Private Investment in Egypt under the *Infitah*," mimeo (paper presented at the 1988 Annual Meetings of the Middle East Studies Association, Los Angeles, California); Ibrahim Helmy Abdel-Rahman and Mohammed Sultan Abu Ali, "Role of the Public and Private Sectors with Special Reference to Privatization: The Case of Egypt," in Said El-Naggar, ed., *Privatization and Structural Adjustment in the Arab Countries*, (Washington, D.C., International Monetary Fund, 1989); and numerous articles in *Middle East Economic Digest* (*MEED*), the Middle East News Agency, *Economic Weekly* (*MEN*), and National Bank of Egypt, *Economic Bulletin* (*NBE*), (especially the article in issue No. 3 of 1985).

5. The data used in this paper are mainly based on the National Bank of Egypt, *Economic Bulletin* (*NBE*), and the Middle East News Agency, *Economic Weekly* (*MEN*). The latter source regularly reports the data published by the Authority for Foreign Investment and the Free Zones in Egypt.

6. The share of entirely locally owned companies in the total paid-up capital of companies operating in Egypt in 1914 was only 9%. By 1933 this share had increased to 14%. See A.E. Crouchley, *The Investment of Foreign Capital in Egyptian Companies and Public Debt*, (Cairo: 1936; reprinted in New York: Arno Press, 1977), p. 93.

7. The share of Egyptian capital among the joint-stock companies established between 1934 and 1939 was 47%, which increased to 66% in 1940-45 and to 84 percent between 1946-48. Nevertheless, by 1956 only about half of the total capital of joint-stock companies registered in Egypt was Egyptian owned. See Charles Issawi, *Egypt in Revolution--An Economic Analysis*, (London: Oxford University Press, 1963), p. 238.

8. See Robert Mabro and Samir Radwan, *The Industrialization of Egypt, 1939-1973*, (London: Oxford University Press, 1976), and Robert Tignor, *State, Private Enterprise, and Economic Change in Egypt, 1918-1952*, (Princeton: Princeton University Press, 1984).

9. Tignor (n. 8 above), p. 248.

10. Due to ambiguities in the calculations of the constant price indices of the national accounts of Egypt in the 1980s, we have calculated the real GDP and investment indices in Table 1 using the wholesale price index (WPI) reported by the *NBE* (note 5 above). The *NBE* itself does not provide a consistent and complete set of constant price indices. The World Bank (WB) has produced two different sets of data in the 1987 and 1988-89 editions of *World Tables*, the more recent of which gives much higher growth figures than those shown in Table 1. Unfortunately, the deflators that the WB has used seem to be considerably below the relevant price indices reported by other sources. For example, the WB's deflator for fixed investment in 1981 and 1985 grows by 4.1% and 4.9%, respectively, while the according to the *NBE*, in those years the wholesale prices of construction materials grew by 13.3% and 14.8, respectively, and that of metals and metal products by 13.5% and 8.9%, respectively. The most surprising figure is the WB's estimate of 1.1% growth rate for the GDP deflator in 1981 when the average wage rate grew by 28.0% (*NBE*, 1987, Table 2/3b). The Ministry of Planning of Egypt (MPE) has also published a set of constant-price national account indices in its Volume One of *Egypt's Second Five-Year Plan for Socio-Economic Development (1987/88-1991/92)*, which is even more optimistic than those of *World Tables, 1988-89*. However, as the following table shows, all of these data sets imply a rapidly declining GDP growth rate during the 1980s. This is consistent with the trend in the GDP growth figures estimated in Table 1 and with the signs of a recession (rising share of consumption and declining share of investment in GNP) evident in Table 2.

Growth Rates of Constant Price GDP in Egypt According to Various Sources

Source\Year	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
MPE	-	-	-	-	-	-	9.9*	8.0*	7.4*	4.8*	4.2*
NBE	-	9.2	9.8	9.5	-	-	7.5*	5.0*	10.8*	9.2*	4.2*
WB 1988-89	10.1	9.1	9.5	10.5	4.0	11.5	7.6	6.2	6.7	2.7	2.5
WB 1987	9.9	9.2	9.3	14.6	5.7	6.1	5.2	6.9	1.9	0.7	-

* Year ending in June.

11. This was, of course, to some extent foreseeable at the turn of the decade. See, for example, Bent Hansen and Samir Radwan, *Employment Opportunities and Equity in Egypt* (Geneva: International Labor Office, 1982).

12. For a detailed account of the exchange rate policy in Egypt see the Economist Intelligence Unit (EIU), *Country Profile: Egypt, 1988-89*, and the International Currency Analysis, Inc., *World Currency Yearbook*, 1986-1987.

13. Driscoll et al. (n. 4 above), chapter II.

14. A proposal for a separate code on the transfer of technology was suggested in 1981, but thus far no action has been taken in that regard [*UNCTC*, (n. 2 above), p. 267].

15. "The exemption from the general tax on income is conditioned upon such income not being subject to similar taxation in the investor's home country or in the country to which income is transferred, as the case may be" (Article 16 of Law 43, 1974). The duration of the income tax exemption begins with the first tax year following the commencement of operations. For land reclamation and construction projects outside the existing agricultural and urban areas, the tax exemption period could be extended up to 15 years. For further details of Law 43 and its amendments see Driscoll et al. and Carr (n. 4 above).

16. A separate law, New Communities Law (Law No. 25 of 1979), provides further encouragement to industrial projects located in new desert cities--Al Ashir min Ramadan, Madinat Sitta Uktuber, and Madinat as-Sadat. On the growth of these industrial centers, see Gunter Meyer, "Industrial Expansion in the new Desert Cities in Egypt," (University of Erlangen-Nurnberg, mimeo) paper presented at the Annual Conference of the Middle East Studies Association, November 1988.

17. Two types of free zones are envisaged by the Law: public and private. Public free zones consist of pre-designated stretches of land where projects with a free-zone status may be located. Private free zones are the sites of individual projects also covered by the free-zone provisions of the Law but located outside public free zones. Currently, five different public free zones exist in Cairo, Alexandria, Suez, Port Said, and Ismailia. A sixth one is under construction in Adabiya, Suez, and a seventh one is being planned for Damietta.

18. Most of these projects were approved in five hours on March 27, 1977. See John Waterbury, *The Egypt of Nasser and Sadat: The Political Economy of Two Regimes*, (Princeton: Princeton University Press, 1983), pp. 145-146.

19. In 1981, Law 159, the New Companies Law, extended some of the tax privileges of Law 43 to the domestically-owned joint stock, limited partnership, and limited liability companies. This law also substantially relaxed the previously-imposed tight regulations on such enterprises. This development may partially account for the decline of investment under Law 43. However, as we note below, it is the decline in foreign equity that is the more problematic part in the trends of such investments. See also note 21.

20. Taking account of inflation, of course, would prove the decline to be even more dramatic. For example, deflation by the Egyptian wholesale price index shows a (real) decline of almost 82% in the value of annual capital approvals between 1981/82 and 1985/86.

21. It is important to keep in mind that the increase in the Egyptian share has come about despite the fact that investment under the New Communities Law of 1979 (see n. 16 above) and the New Companies Law of 1981 (see n. 19 above), which compete with investment under Law 43, have become increasingly attractive to Egyptian investors. It is also interesting to note that the increased share of Egyptian capital has largely come about through increases in the share of wholly Egyptian-owned enterprises, and to a much lesser extent through increased equity shares in joint ventures. The share of wholly Egyptian-owned, inland projects in the total capital committed under Law 43 increased from 26% in 1980 to 50% in 1984 (*MEN*, December 4, 1981, p. 13, and February 1, 1985, p. 5). At the same time, the share of the public sector in the Egyptian equity of inland projects has been declining. This share has stood at 38%, 36%, 35.1%, and 31.7% in the middle of 1984, 1985, 1986, and 1987, respectively (*MEN*, February 1, 1985, p. 5, and *NBE*, 1985, No. 3, p. 260; 1986, No. 4, p. 275; 1987, No. 3, p. 171).

22. This difference may partly be due to the absence of minimum local participation requirements. However, it should be pointed out that the share of Egyptian capital among inland projects is far greater than the minimum requirements set by the Law. The focus of Egyptian entrepreneurs on inland projects is likely to be due to their comparative advantage in conducting business within Egypt when compared to Arab entrepreneurs who can benefit more from free-zone projects linked to their home countries. It is interesting to note that Egyptian private investors contribute a much smaller share of the Egyptian capital in free-zone projects than in inland projects. By the mid-1984 the public sector had taken up more than 47% of the Egyptian capital going to the free zones as opposed to 38 percent going to inland projects (*MEN*, February 1, 1985, p. 5).

23. See, for example, *NBE*, 1985, No. 3, p. 257. It is notable that as a result of approval cancellations and reduced project proposals, the percentage of inactive approved inland projects (i.e., those neither operating nor under implementation) in terms of number has dropped from over 32% in 1977 to about 21% in 1985 and less than 17% in 1987. The corresponding figures in terms of total approved capital are 43.7, 26.4, and 20.7. The percentage of inactive projects in 1976 was somewhat lower: 30.4% in terms of number and 37.6% in terms of capital. (These data are based on *NBE*, 1976 and 1977, *MEN*, January 30, 1987, and *NBE*, 1987, No. 1,2.)

24. The wholesale price index, of course, is not an ideal deflator for investment expenditures. Moreover, applying such a deflator to the book value of capital of enterprises that start their operations in a given year does not properly account for price changes during the gestation period of each project. However, these concerns do not seem to have much practical significance since, fortunately, the shares calculated in Table 8 are by and large insensitive to the deflation method and the choice of deflator (or even lack thereof).

25. These sectors consist of agriculture, manufacturing, mining, electricity, construction, transportation and communication, trade, finance, insurance, and tourism. Excluded sectors are petroleum, housing, public utilities, and government and social services. For some of the comparisons the agricultural sector is also excluded because the types of investment and employment in agricultural Law 43 projects are somewhat different from the typical investment and employment in family farms, which dominate that sector. It is interesting to note that the actual average wage rate paid by agricultural projects is much higher than the going wage rate in the agricultural sector and, indeed, quite close to the average wage rate in the construction sector. In 1987, the average wage in agricultural projects was only 2% below the wage rate in the construction sector and about three times the one in the agricultural sector (based on *MEN*, May 12, 1989, and *NBE*, 1987, No. 1-2).

26. Table 10 provides the data for the sectoral composition of nonfinancial, operating, inland projects. Similar data for free-zone projects is not directly available. However, given the high rate of implementation among free-zone projects (see Table 7), the sectoral composition of approved ones given in Table 13 can be taken as a reasonable proxy.

27. For the value of stock of capital in other developing countries, see *UNCTC* (n. 2 above), Table XXI.6. In that table, the stock of foreign investment in Egypt in 1984 is recorded as $14.9 billion, which, as indicated by the observations in this paper, is the total nominal value of investments *approved* under Law 43 by that time.

28. See, for example, Cooper (n. 4 above), p. 109.

29. See two articles in *MEED*, June 30, 1989, and November 10, 1989, that discuss the main concerns of Egypt's private sector regarding Law 230.

30. *UNCTC* (n. 2 above), p. 85.

31. Presence of non-Arab (especially U.S.) capital in the Egyptian petroleum sector is also quite prominent (Galal A. Amin, "Adjustment and Development: The Case of Egypt," in Said El Naggar, ed., *Adjustment Policies and Development Strategies in the Arab World*, International Monetary Fund, 1987). However, this branch of foreign investment is beyond the scope of the present paper.

32. It should be pointed out that the project wages paid to Egyptian workers must have been about 15% below the figures shown in Table 17 because the data in that table include the high salaries of foreign employees. Table 15 is helpful in demonstrating this point for the approved projects by the end of 1982. Such a low pay may, to some extent, be due to a higher proportion of women in the workforce of Law 43 projects. However, no data could be found in this regard.

33. Note that employment and fixed investment in finance projects are quite small and, thus, can be ignored in these comparisons.

34. See Abdel-Rahman and Abu Ali (n. 4 above), p. 161.

35. This information is based on *NBE*, 1987, No. 1-2, Tables 2/4c and 2/7b.

36. For a discussion of the role and activities of *Infitah* banks see Moore (n. 4 above)

37. According to a Shura Council study published in 1986, only 4% of foreign currency attracted to the *Infitah* financial institutions were from non-Egyptians, while 21% of the assets were placed outside Egypt [quoted from McDermott (n. 4 above), p. 146].

38. The data in this paragraph is quoted from *MEN*, February 13, 1987, p. 8.

39. See the Shura Council study cited in note 37 above.

40. The year 1983 seems to have been a better year for Law 43 exports because Shafik (n. 4 above) reports that between 1974-86, projects exported only 6% of their output (p. 12).

41. See Shafik (n. 4 above), p. 11.

42. See, for example, David Butter, "Debt and Egypt's Financial Policies," in Charles Tripp and Roger Owen, *Egypt under Mubarak*, (London: Routledge, 1989), p. 127.

43. Between 1981 and 1985, the total number of tourists in Egypt has increased by more than 10%. However, total tourist-nights and tourism revenues have slightly declined during the same period.

44. *UNCTC* (n. 2 above), p. 74.

45. See *UNCTC* (n. 2 above), p. 80.

46. Article 22 of the amended Law 43 states that: "Projects that are basically not

export oriented, and that limit the country's need for imports, shall be permitted to transfer, in whole or in part, their net profits at the highest rate prevailing and declared for foreign currency within the limits approved by the [Investment] Authority and subject to the currency regulations in force." Export-oriented projects, on the other hand, are expected to generate their own foreign exchange which can be used for the purpose of profit repatriation.

47. Note that between 1980/81 and 1986/87 the investment volume of approved free-zone projects has declined much faster than those of approved inland projects, reflecting the substantial loss of profitability in export-oriented projects and confirming the overvaluation of the Egyptian pound in this period. The opposite is true between 1986/87 and 1988 when some exchange-rate policy reforms were implemented.

48. See Shafik (n. 4 above), p. 12.

49. *MEN*, May 19, 1989, p. 13.

Table 1
Gross Domestic Product, Investment, Balance of Payments, and External Debt

Year	GDP* Nominal (LE mn)	GDP* WPI Deflated Index	GDP* Rate of Growth	Fixed Investment* Nominal (LE mn)	Fixed Investment* WPI Deflated Index	Foreign Recepits and Payments: Exports ($ mn)	Worker Remit. ($ mn)	Imports ($ mn)	Current Account ($ mn)	External Debt: Total Debt ($ mn)	Debt As % of Exports	Debt Service As % of Exports
1974	4190	100.0	-2.5	643	100.0	2338	189	4165	-1638	2960	126.6	22.1
1975	5168	109.7	9.7	1335	184.6	2589	366	5471	-2516	4983	192.5	23.0
1976	6653	133.3	21.5	1462	190.8	3391	755	5596	-1450	6018	177.5	19.6
1977	8210	149.1	11.9	1838	217.5	4001	897	6417	-1519	8467	211.6	27.7
1978	9788	161.1	8.1	2638	283.0	4243	1761	7419	-1415	10703	252.3	29.0
1979	12610	187.4	16.3	3707	359.0	5707	2445	10156	-2004	12464	218.4	18.5
1980	15812	205.5	9.7	4062	344.0	7087	2696	11300	-1517	15785	222.7	21.6
1981	17149	194.9	-5.2	5108	378.3	8207	2855	13481	-2419	18979	231.3	24.6
1982	20881	219.1	12.4	5469	373.9	8430	1935	13917	-3552	21214	251.6	25.0
1983	24834	238.3	8.8	6399	400.2	8870	3165	14411	-2376	23184	261.4	24.9
1984	28600	237.0	-0.6	6710	362.3	9561	3931	16556	-3064	25136	262.9	23.6
1985	34211	257.3	8.6	7272	356.4	9754	3496	18011	-4761	29041	297.7	23.5
1986	38221	253.9	-1.3	7752	335.6	8754	2973	17074	-5347	32093	366.6	22.2
1987	44050	249.6	-1.7	7700	284.3	8061	2845	14684	-3778	34515	428.2	-**
1988	52100	259.7	4.1	9163	297.6	-	-	-	-	-	-	-

* Year ending in June.
** In this and all other tables, a dash ("-") means that the corresponding figure is not available.
Sources: GDP and Investment: IMF, International Financial Statistics, various years.
Wholesale Price Index (WPI): National Bank of Egypt, Economic Bulletin, various issues;
Trade and Debt data: World Bank, World Tables, 1988-89 and World Debt Tables, various years.

Table 2
National Accounts as Shares of Gross Domestic Product
(Percentages)

Year	Private Consumption	Government Consumption	Gross Fixed Capital Format.	Increase in Stocks	Exports	Less Imports	GDP	Net Factor Income Abroad	GNP	Resource Gap: Excess of Imports over Exports and Net Factor Income Abroad as % of GNP
1973/74	68.5	26.3	15.3	1.9	21.2	-33.3	100.0	-2.7	97.3	14.7
1974/75	67.6	23.5	25.8	1.9	18.3	-37.2	100.0	-2.9	97.1	21.7
1975/76	62.6	23.6	22.0	2.9	15.5	-26.6	100.0	-2.0	98.0	13.1
1976/77	59.9	20.7	22.4	6.8	21.6	-31.4	100.0	-5.3	94.7	15.0
1977/78	64.0	18.8	27.0	4.3	19.9	-33.9	100.0	-10.0	90.0	24.0
1978/79	66.1	16.2	29.4	4.7	26.6	-43.0	100.0	6.2	106.2	10.2
1979/80	69.7	16.1	25.7	1.7	27.3	-40.5	100.0	7.6	107.6	5.6
1980/81	65.0	16.6	29.8	0.6	30.9	-42.9	100.0	7.7	107.7	4.3
1981/82	69.1	16.4	26.2	0.5	26.9	-39.1	100.0	2.1	102.1	10.1
1982/83	65.7	16.7	25.8	0.8	24.8	-33.8	100.0	4.9	104.9	4.1
1983/84	70.3	17.3	23.5	0.7	22.3	-34.0	100.0	7.0	107.0	4.7
1984/85	71.4	16.7	21.3	0.6	19.3	-29.2	100.0	4.9	104.9	5.0
1985/86	71.3	16.0	20.3	1.0	15.8	-24.4	100.0	3.1	103.1	5.6
1986/87	77.3	14.4	17.5	1.0	14.1	-24.8	100.0	4.6	104.6	6.0
1987/88	79.4	13.2	17.6		13.4	-23.6	100.0	-	-	-

Source: Based on IMF, International Financial Statistics, various years.

Table 3
Multiple Exchange Rates in Egypt, 1980-1987
(U.S. dollars per Egyptian pound at the end of each year)

Year	The Rate Applicable to the Foreign Exch. Pool of: Central Bank	Comm. Banks	"Own-Exchange"	Black Market	Central Bank Rate as % of Own-Exch. Rate	Commer. Bank Rate as % of Own-Exch. Rate
1974	2.56	1.70	-	1.44	-	-
1975	2.56	1.70	1.43	1.42	179.0	118.9
1976	2.56	1.43	1.37	1.35	186.9	104.4
1977	2.[illegible]	1.43	1.45	1.43	176.6	98.6
1978	2.56	1.43	1.37	1.34	186.9	104.4
1979	1.43	1.43	1.35	1.33	105.9	105.9
1980	1.43	1.20	1.34	1.31	106.7	89.6
1981	1.43	1.20	1.05	1.00	136.2	114.3
1982	1.43	1.20	1.00	0.93	143.0	120.0
1983	1.43	1.20	0.85	0.86	168.2	141.2
1984	1.43	1.20	0.73	0.75	195.9	164.4
1985	1.43	0.75	0.58	0.58	246.6	129.3
1986	1.43	0.74	0.52	0.50	275.0	142.3
1987	1.43	0.53	0.44	-	325.0	120.5
1988	1.43	0.43	0.40	-	352.9	105.0
1989	0.91	0.39	0.37	-	246.4	105.9

* Parallel rate before 1979.
Sources: 1974-86: International Currency Analysis, Inc., World Currency Yearbook, 1984-1987;
1987-89: IMF, International Financial Statistics, August 1988.

Table 4
Project Approvals under Law 43

	Investment Projects inside the Country					Investment Projects in Free Zones				
		Capital		Investment Costs			Capital		Investment Costs	
Year	No.	LE mn	US$ mn*	LE mn	US$ mn*	No.	LE mn	US$ mn*	LE mn	US$ mn*
1974/75	110	442.3	751.9	489.3	831.8	2	21.1	35.9	22.1	37.6
1975/76	80	394.3	670.3	860.3	1462.5	53	141.1	239.9	145.9	248.0
1976/77	91	605.2	865.4	1546.5	2211.5	35	53.8	76.9	57.5	82.2
1977/78	124	421.1	602.2	616.6	881.7	50	38.5	55.1	61.8	88.4
1978/79	118	319.8	457.3	588.4	841.4	20	21.3	30.5	25.6	36.6
1979/80	130	456.4	652.7	857.1	1225.7	23	20.8	29.7	29.9	42.8
1980/81	201	860.9	1033.1	1899.2	2279.0	45	77.3	92.8	174.0	208.8
1981/82	150	646.4	775.7	1584.3	1901.2	11	66.2	79.4	134.9	161.9
1982/83	100	391.4	469.7	682.7	819.2	29	150.0	180.0	181.2	217.4
1983/84	165	798.0	957.6	1343.0	1611.6	2	36.2	43.4	87.4	104.9
1984/85	73	451.6	541.9	1110.5	1332.6	5	13.1	15.7	26.0	31.2
1985/86	82	300.2	225.2	820.6	615.4	4	6.4	4.8	8.5	6.4
1986/87	87	512.3	379.1	1072.4	793.6	7	14.5	10.7	21.6	16.0
1988	87	687.0	329.8	1188.0	570.2	12	48.0	23.0	66.0	31.7

* Converted at the commercial-banks exchange rate (see Table 3).
Sources: 1974/75-1986/87: National Bank of Egypt, Economic Bulletin, 1987, Nos. 1-2 and 3;
1988: Middle East News Agency, Economic Weekly, May 4, 1990.

Table 5
Participation of Countries in the Cumulative Capital of Projects Approved under Law 43
(Percentages)

Year	Egypt	Arab Countries	United States	E.E.C. Countries	Other Countries	Total
Inland						
1977	50	24	6	20		100
1979	55	17	9	5	14	100
1980	58	12	8	8	14	100
1982	61	23	4	5	7	100
1984	71	15	4	6	4	100
1985	-	-				-
1986	71	14		15		100
1987	70	14	5	6	5	100
1988	-	-				-
1989	67	16		17		100
Free Zones						
1984	38	31	7	6	18	100
1987	31	47	6	5	11	100
1988	-	-				-
1989	35	43		22		100

Sources: National Bank of Egypt, Economic Bulletin, and Middle East News Agency, Economic Weekly, various issues.

Table 6
Cumulative Capital and Investment Costs of Operating Law 43 Projects

	Investment Projects inside the Country					Investment Projects in Free Zones				
		Capital		Investment Costs			Capital		Investment Costs	
Year	No.	LE mn	US$ mn*	LE mn	US$ mn*	No.	LE mn	US$ mn*	LE mn	US$ mn*
1976	80	149.0	213.1	-	-	-	-	-	-	-
1977	197	197.0	281.7	247.0	353.2	-	-	-	-	-
1981**	392	999.1	1324.4	1434.8	1897.3	203	226.2	294.0	356.2	463.1
1982	552	1582.5	2024.5	2416.0	3074.8	250	386.0	485.8	507.0	644.0
1984**	687	2326.5	2917.3	3753.4	4679.7	261	427.9	536.1	630.9	792.7
1985	798	3218.0	3585.9	5682.4	6126.4	244	883.7	877.9	1116.7	1157.1
1986	806	3327.0	3666.6	5929.0	6308.9	241	877.3	873.2	1108.9	1151.3
1987	828	3440.0	3726.5	6142.0	6421.8	238	882.0	875.7	1127.0	1160.9
1989**	901	4604.0	4203.7	8390.0	7343.5	225	962.0	908.5	1228.0	1202.3

* Computed by applying the average prevailing commercial-banks exchange rate (see Table 3) to incremental values between consecutive observations.
** Mid-year values.

Sources: Based on National Bank of Egypt, Economic Bulletin, and Middle East News Agency, Economic Weekly, various issues.

Table 7
Proportions of Approved Law 43 Projects Completed and Operating at the End of Various Years*
(Percentages)

Year	Industrial No.	Industrial Capital	Financial No.	Financial Capital	Agricultural No.	Agricultural Capital	Construction No.	Construction Capital	Services No.	Services Capital	Total Inland No.	Total Inland Capital	Free Zones No.	Free Zones Capital
1976	34.0	12.5	41.7	71.9	0.0	0.0	16.7	1.8	20.0	11.2	29.6	27.3	-	-
1981**	41.8	20.4	40.8	48.8	16.7	34.9	29.8	17.9	29.9	12.6	35.8	29.5	60.6	52.9
1982	45.9	22.2	46.2	41.8	33.0	50.8	42.4	20.6	38.8	22.9	43.4	31.6	69.3	22.0
1984**	49.2	27.8	68.6	73.9	40.4	48.6	51.1	22.0	54.3	32.4	53.6	43.6	81.1	68.3
1985	50.1	38.8	89.4	93.6	37.5	45.6	53.2	33.9	65.0	40.1	59.1	54.5	86.8	63.7
1986	52.8	39.3	86.1	91.1	40.6	47.6	50.8	27.5	63.5	45.0	59.5	54.0	89.9	94.3
1987	53.5	38.6	83.3	89.6	40.0	45.0	52.5	27.2	64.8	43.1	59.7	52.1	87.5	93.5
1989**	61.2	58.6	78.1	74.0	55.9	67.1	65.3	47.7	65.3	50.7	65.2	61.4	86.2	89.4

* Excluding projects that have closed down or have lost their approval status.
** Mid-year values.
Sources: Based on National Bank of Egypt, Economic Bulletin, and Middle East News Agency, Economic Weekly, various issues.

Table 8
Share of Nonfinancial Inland Law 43 Projects in the Cumulative, WPI-Deflated, Gross Fixed Capital Formation in Egypt Since 1974*

Year	Percent of Investment in Relevant Sectors*** Industry	Agriculture	Construction	Services	Total	Percent of Investment in All Sectors
1981**	5.9	8.5	26.3	3.3	6.0	4.3
1982	7.8	10.2	31.0	7.0	8.7	6.1
1984**	10.8	10.5	35.4	7.2	10.3	7.3
1985	15.5	9.4	43.1	9.3	13.4	9.4
1986	14.4	8.7	37.0	9.0	12.5	8.7
1987	13.8	7.8	34.8	8.7	11.9	8.2

* The values of Law 43 investments are deflated by the average wholesale price index corresponding to incremental values between consecutive observations.
** Mid-year values.
*** The relevant sectors for industrial projects are manufacturing, mining, and electricity, for agricultural projects, agriculture, for construction projects, construction, and for finance and service projects, transportation and communication, trade, finance, insurance, and tourism.

Sources: Based on National Bank of Egypt, Economic Bulletin, and Middle East News Agency, Economic Weekly, various issues.

Table 9
Sectoral Distribution of Inland Projects Approved Annually under Law 43
(Percentages)

Year	Percentages of Total Capital						Percentages of Total Investment Costs					
	Industrial	Financial	Agricultural	Construction	Service	Total	Industrial	Financial	Agricultural	Construction	Service	Total
1974/75	23.2	59.9	0.0	0.9	16.0	100.0	21.0	66.3	0.0	2.0	10.7	100.0
1975/76	37.2	32.4	2.2	1.3	26.9	100.0	46.7	18.4	2.2	0.9	31.8	100.0
1976/77	20.2	19.5	12.3	6.5	41.4	100.0	42.3	10.0	12.1	4.7	30.9	100.0
1977/78	16.2	51.8	6.9	7.8	17.3	100.0	21.1	35.4	6.4	10.6	26.5	100.0
1978/79	39.7	28.7	2.9	10.8	17.8	100.0	50.1	15.6	3.6	10.2	20.5	100.0
1979/80	21.8	45.0	3.6	13.1	16.4	100.0	27.6	27.3	3.8	24.7	16.5	100.0
1980/81	51.5	33.6	4.5	4.3	6.1	100.0	66.0	15.2	5.5	4.9	8.3	100.0
1981/82	59.2	16.7	2.7	6.2	15.1	100.0	75.6	6.8	2.5	6.0	9.0	100.0
1982/83	32.5	17.5	7.1	26.2	16.8	100.0	37.6	10.0	7.9	24.2	20.3	100.0
1983/84	43.9	21.8	7.9	15.1	11.3	100.0	47.6	13.0	9.8	15.8	13.8	100.0
1984/85	23.4	25.3	7.0	20.2	24.1	100.0	36.1	8.0	5.0	24.3	26.6	100.0
1985/86	56.8	0.8	1.1	28.9	12.4	100.0	63.6	0.3	0.7	24.9	10.5	100.0
1986/87	38.1	16.4	4.1	17.8	23.7	100.0	39.6	7.8	4.8	18.6	29.1	100.0
1988	40.2	43.4	2.5	0.9	13.1	100.0	58.1	25.1	2.2	1.5	13.1	100.0

Sources: 1974/75-1986/87: National Bank of Egypt, Economic Bulletin, 1987, Nos. 1-2;
1988: Middle East News Agency, Economic Weekly, May 4, 1990.

Table 10
Sectoral Distribution of Operating Projects inside Egypt under Law 43

Year	Percent of Total Capital in Financial Projects	Percent of Total Non-Finance Capital				Percent of Total Investment in Financial Projects	Percent of Total Non-Finance Investment Costs			
		Industrial	Agricultural	Construction	Service		Industrial	Agricultural	Construction	Service
1976	76.4	50.0	0.0	5.1	44.9	-	-	-	-	-
1981*	58.9	51.3	15.6	11.0	22.1	41.9	43.4	17.3	17.9	21.4
1982	55.0	43.6	15.2	10.7	30.6	37.7	39.8	14.7	13.7	31.8
1984*	52.9	50.0	12.7	9.5	27.7	36.0	48.6	12.8	12.2	26.4
1985	48.9	53.0	9.0	11.7	26.3	30.0	55.1	8.2	11.4	25.2
1986	47.2	53.3	9.5	10.3	27.0	28.7	55.1	8.8	10.2	25.9
1987	45.7	54.2	8.9	10.1	26.8	27.7	55.7	8.4	10.0	25.9
1989*	37.9	54.7	8.8	12.2	24.3	22.3	57.5	8.4	11.5	22.6

* Mid-year values.

Sources: Based on National Bank of Egypt, Economic Bulletin, and Middle East News Agency, Economic Weekly, various issues.

Table 11

Participation of Countries in the Cumulative Capital of Approved Law 43 Projects
by Sector, 1984 and 1987
(Percentages)

Type of Activity	Egypt		Arab Countries		United States		E.E.C. Countries		Other Countries		Total	
	1984	1987	1984	1987	1984	1987	1984	1987	1984	1987	1984	1987
<u>Inland Projects</u>	71	70	15	14	4	5	6	6	4	5	100	100
Industrial	74	72	8	9	4	6	8	9	6	5	100	100
Financial	70	70	21	19	2	1	4	6	3	3	100	100
Agricultural	76	76	15	14	2	1	4	3	3	6	100	100
Construction	78	88	16	9	1	1	4	2	1	1	100	100
Services	60	56	19	17	14	14	4	5	3	8	100	100
<u>Free Zone Projects</u>	38	31	31	47	7	6	6	5	18	11	100	100

Sources: Middle East News Agency, <u>Economic Weekly</u>, February 1, 1985, and National Bank of Egypt, <u>Economic Bulletin</u>, No.3, 1987.

Table 12

Sectoral Structure of Gross Domestic Income*
(Percentages of Total GDP at Factor Cost in Each Year)

Year	Agriculture	Petroleum	Manuf. & Mining	Construction	Electricity	Transp. & Communic.	Suez Canal	Trade & Finance	Housing	Public Utilities	Tourism	Other Services
1974	34.1	2.5	18.3	3.6	1.3	4.5	-	10.8	3.4	0.4	-	21.1
1975	30.7	3.1	17.8	4.5	1.5	5.1	-	13.3	2.7	0.4	-	20.8
1976	28.3	4.2	17.4	4.6	1.5	7.8	-	12.6	2.6	0.4	-	20.6
1977	26.1	5.7	17.5	4.8	1.5	8.3	-	12.4	2.5	0.4	-	20.8
1978	25.0	6.1	17.4	4.6	1.4	6.0	2.8	13.9	2.4	0.4	-	20.1
1979	23.6	8.4	17.2	4.7	1.5	5.1	3.3	13.4	2.4	0.4	-	20.0
1980	22.2	8.1	17.4	5.4	1.5	5.4	3.8	13.2	2.3	0.4	-	20.3
1981/82	19.8	15.0	13.6	4.7	0.6	4.4	3.5	18.3	1.8	0.2	1.2	16.9
1982/83	18.4	15.7	13.8	4.9	0.6	4.9	3.2	18.8	1.9	0.2	1.2	16.3
1983/84	17.9	15.8	14.1	4.7	0.7	5.9	3.0	18.3	1.9	0.3	1.2	16.2
1984/85	16.6	14.6	15.9	4.5	0.7	6.1	2.6	19.8	2.0	0.3	1.1	15.8
1985/86	16.9	14.3	14.7	4.7	0.8	7.6	2.4	19.0	2.0	0.4	1.0	16.1
1986/87	16.7	14.8	13.9	4.4	0.9	7.8	2.2	19.2	2.1	0.4	1.1	16.6

* Based on constant price indices: 1974 based on 1973 factor costs; 1975 based on 1974 factor costs; 1976-1980 based on 1975 factor costs; 1981/82-1986/87 based on 1981/82 factor costs.

Source: Computed from National Bank of Egypt, <u>Economic Bulletin</u>, various issues.

Table 13

Cumulative Sectoral Distribution of Free Zone Projects Approved under Law 43
(Percentages of Total at Mid-Years)

Year	Percentages of Total Capital					Percentages of Total Investment Costs				
	Industrial	Finance & Trade	Service	Storage	Total	Industrial	Finance & Trade	Service	Storage	Total
1986	14.6	45.7	25.2	14.5	100.0	16.1	35.6	31.6	16.7	100.0
1987	14.9	45.3	24.4	15.5	100.0	17.8	35.2	30.0	17.0	100.0

Source: Based on National Bank of Egypt, Economic Bulletin, 1986, No. 4, and 1987, No. 3.

Table 14

Employment in Law 43 Projects
(Including Both Egyptians and Foreigners)

	Employment in Approved Projects		Employment in Operating Projects							
	Inland	Free Zone	Inland				Free Zone			
Year	Number ('000)	Number ('000)	Number ('000)	% of RSE1*	% of RSE2**	% of RSE3***	Number ('000)	% of RSE1*	% of RSE2**	% of RSE3***
1979+	151.0	32.0	44.0	0.57	1.22	5.36	9.4	0.12	0.26	1.14
1982	200.8	20.6	-	-	-	-	-	-	-	-
1984+	210.8	18.1	83.1	0.96	1.93	5.45	14.2	0.16	0.33	0.93
1985	224.0	19.0	-	-	-	-	-	-	-	-
1986	204.0	17.6	138.0	1.61	3.36	10.42	14.6	0.17	0.36	1.10
1987	205.0	18.0	140.7	1.59	3.28	9.30	15.0	0.17	0.35	0.99
1989+	205.3	17.6	157.8	-	-	-	15.4	-	-	-

+ Mid-year values.
* RSE1: Total employment in the relevant sectors of the economy as defined in Table 8.
** RSE2: Total employment in the relevant sectors of the economy except agriculture.
*** RSE3: Post-1974 increase in employment in the relevant, non-agricultural sectors of the economy.

Sources: Based on National Bank of Egypt, Economic Bulletin, and Middle East News Agency, Economic Weekly, various issues.

Table 15

Projected Employment and Wages in Approved Law 43 Projects, December 31, 1982

Type of Activity	Total: Employment ('000)	Total: Average Wage (LE)	Foreigners: Employment ('000)	Foreigners: Average Wage (LE)	Egyptians: Employment: Number ('000)	Egyptians: Employment: % of Total in Relevant Sectors of the Economy*	Egyptians: Wage Rate: Average Value (LE)	Egyptians: Wage Rate: % of Average in Relevant Sectors of the Economy*
<u>Inland Projects</u>	200.8	1431.3	3.0	13133.3	197.8	2.4	1253.8	235.7
Industrial	113.1	1559.7	1.0	21600.0	112.1	7.5	1380.9	150.7
Agricultural & Construction	54.3	1029.5	0.6	10666.7	53.7	1.1	921.8	387.6
Finance & Services	33.4	1649.7	1.4	8142.9	32.0	1.8	1365.6	133.6
<u>Free Zones</u>	20.6	2373.8	1.0	7500.0	19.6	0.5	2112.2	233.0

* For the definition of the relevant sectors for inland projects see Table 8. For free zones, the relevant sectors are the same as the inland ones except for agriculture.

Source: Based on National Bank of Egypt, <u>Economic Bulletin</u>, 1983, No. 1.

Table 16

Sectoral Distribution of Employment in Inland Projects Operating under Law 43

(Percentages)

Year	Type of Activity: Industrial	Agricultural	Construction	Finance & Services	Total
1984*	45.5	7.6	33.1	13.8	100.0
1985	-	-	-	-	-
1986	62.3	5.8	21.7	10.1	100.0
1987	63.0	5.4	21.2	10.4	100.0
1988	-	-	-	-	-
1989*	62.2	6.4	19.9	11.6	100.0

* Mid-year values.

Sources: Based on National Bank of Egypt, <u>Economic Bulletin</u>, and Middle East News Agency, <u>Economic Weekly</u>, various issues.

Table 17
Employment and Wages in Law 43 Projects, December 31, 1987
(Including Both Egyptians and Foreigners)

	Approved Projects				Operating Projects				
	Employment		Wage Rate		Employment			Wage Rate	
Type of Activity	Number ('000)	% of Total in RSE1*	Average Value (LE)	% of Average in RSE1*	Number ('000)	% of Total in RSE1*	% of Increase in RSE4*	Average Value (LE)	% of Average in RSE1*
Inland Projects	205.0	3.0	1916.6	174.7	140.7	1.7	7.6	1208.1	110.1
Industrial	123.9	6.5	2057.6	129.5	88.6	4.6	12.1	1185.3	74.6
Agricultural	15.3	0.3	1825.8	354.0	7.6	0.2	2.3	1046.6	202.9
Construction	36.7	10.9	1307.6	123.6	29.8	8.9	139.5	971.6	91.9
Finance & Services	29.1	1.4	2132.6	110.1	14.6	0.7	1.9	1912.2	98.7
Free Zones***	18.0	0.4	2557.1	149.3	15.0	0.3	0.8	2470.5	144.3
Cairo	4.3	-	2328.8	-	3.8	-	-	2131.6	-
Alexandria	7.1	-	3504.3	-	6.4	-	-	3460.8	-
Suez	5.0	-	993.0	-	3.7	-	-	1080.5	-
Port Said	1.5	-	3931.8	-	1.2	-	-	2575.1	-

* RSE1: The relevant sectors of the economy as defined in Table 8.
** RSE4: Post-1974 increase for the relevant sectors of the economy.
*** For free zones, the relevant sectors are same as for inland ones except for agriculture.
Sources: Based on National Bank of Egypt, Economic Bulletin, 1987, No. 1-2, and Middle East News Agency, Economic Weekly, May 12, 1989.

Table 18
Wages in Law 43 Projects
(Including Both Egyptians and Foreigners)

	Approved Projects		Operating Projects					
	Inland	Free Zone	Inland			Free Zone		
Year	LE	LE	LE	% of RSE1**	% of RSE2***	LE	% of RSE1**	% of RSE2***
1979*	1026.5	906.3	727.3	266.3	178.2	-	-	-
1982	1431.3	2373.8	-	-	-	-	-	-
1984*	1665.6	-	1155.2	-	-	-	-	-
1985	1767.9	2736.8	-	-	-	-	-	-
1986	1848.0	2551.1	1137.7	-	-	2472.6	-	-
1987	1916.6	2557.1	1193.3	110.1	70.6	2470.5	224.3	144.3
1989*	1952.8	2790.3	1469.8	-	-	2531.8	-	-

* Mid-year values.
** RSE1: Average wage rate in the relevant sectors of the economy (see Table 8).
*** RSE2: Average wage rate in the relevant sectors of the economy except agriculture.
Sources: Based on National Bank of Egypt, Economic Bulletin, and Middle East News Agency, Economic Weekly, various issues.

Table 19

Financial Situation of Operating Inland Law 43 Projects, 1984

	Profitable Projects				Losing Projects				All Surveyed Projects			
		Paid-up Capital	Net Profit			Paid-up Capital	Net Loss			Paid-up Capital	Net Profit	
Type of Activity	No.	LE mn	LE mn	as % of Capital	No.	LE mn	LE mn	as % of Capital	No.	LE mn	LE mn	as % of Capital
Industrial	157	288.8	93.0	32.2	76	241.1	56.4	23.4	233	529.9	36.6	6.9
Agricultural & Construction	63	91.1	34.5	37.9	32	87.9	32.0	36.4	95	179.0	2.5	1.4
Finance & Services	166	994.9	209.6	21.1	75	322.9	95.4	29.5	241	1317.8	114.2	8.7
All Sectors	386	1374.8	337.1	24.5	183	651.9	183.8	28.2	569	2026.7	153.3	7.6

Source: General Authority for Investment and Free Zones, Report of the annual Activities, (Cairo, March 1986). Quoted from Table 5 of Ibrahim Helmy Abdel-Rahman and Mohammed Sultan Abu Ali, "Role of the Public and Private Sectors with Special Reference to Privatization: The Case of Egypt," in Siad El-Naggar, ed., Privatization and Structural Adjustment in the Arab Countries, (Washington, D.C., International Monetary Fund, 1989).

Table 20

Output of Nonfinancial Operating Inland Law 43 Projects

	Total Value		Sectoral Composition (% of Total)			
Year	LE mn	as % of Nom. GNP	Industrial	Agricultural	Construction	Service
1979	150.0	1.1	-	-	-	-
1981*	702.0	3.8				
1982	1182.0	5.5	50.5	26.5		23.0
1983	1368.0	5.3	51.2	9.7	14.8	24.3
1984*	1812.8	5.9	54.5	8.5	16.2	20.9

* Mid-year values.

Sources: Based on National Bank of Egypt, Economic Bulletin, and Middle East News Agency, Economic Weekly, various issues.

Table 21

Sectoral Structure of Gross Fixed Capital Formation
(Percentages of Total Fixed Investment at Current Prices in Each Year)

Year	Agriculture	Petroleum	Manuf. & Mining	Construction	Electricity	Transp. & Communic.	Suez Canal	Trade & Finance	Housing	Public Utilities	Tourism	Other Services
1974	8.4	6.8	29.4	1.6	4.7	29.0		0.8	8.0	4.4	-	6.8
1975	7.6	9.2	21.6	2.4	4.3	30.4		1.3	13.8	3.7	-	5.7
1976	7.9	2.3	28.1	6.3	4.7	29.7		2.1	10.0	3.6	-	5.3
1977	8.5	3.6	31.3	2.6	6.1	26.9		1.8	9.9	3.7	-	5.7
1978	7.9	4.3	28.3	2.8	6.8	21.5	7.4	1.7	6.2	5.2	-	7.8
1979	9.2	3.4	22.3	3.2	7.7	24.7	6.8	1.7	6.6	5.9	-	8.4
1980	9.5	1.9	21.1	2.2	8.1	27.5		1.5	8.8	10.8	-	8.6
1981/82	10.6	3.3	24.0	2.2	7.9	22.9		1.4	7.8	9.2	-	10.9
1982/83	9.8	2.4	26.3	1.8	10.6	22.9	2.0	1.9	1.0	9.6	1.2	10.5
1983/84	10.1	2.1	26.3	2.3	11.0	21.5	1.5	1.7	1.0	11.3	1.3	10.0
1984/85	10.3	4.9	23.7	2.4	8.1	16.8	1.0	1.7	13.3	8.4	1.5	7.9
1985/86	12.8	4.5	23.0	2.4	8.2	16.4	0.9	1.2	12.7	8.6	1.3	8.1
1986/87	12.7	2.4	23.9	2.4	7.6	14.6	0.8	1.2	16.2	8.2	1.9	8.2
1987/88	11.2	1.1	26.6	2.6	8.8	15.2	0.6	1.0	13.6	8.6	1.4	9.3

Source: Computed from National Bank of Egypt, Economic Bulletin, various issues.