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INHALTSVERZEICHNIS/TABLE DES MATIERES

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EVALUATION OF THE EGYPTIAN POLICY FOR THE ENCOURAGEMENT OF FOREIGN INVESTMENTS DURING THE 1980s – PARTICIPATION OF GERMAN COMPANIES –

My contribution on results and prospects of Egyptian policy for promotion of foreign direct investment bases on a field study, in which I surveyed Egyptian firms with German participation by a systematic examination of the Investment Authorities data (General Authority for Investment and Free Zones – GAFI)[1].

The data provided by the Authority about number and implementation status proved to be extremely unreliable. Names of the companies were sometimes anagrams like. So a "BREINZ HAND LEZAND FRANKFURT INC" emerged as "Berliner Handels– und Frankfurter Bank". One third of the firms declared as German were either not existent or the "partners" asked in Germany did not know anything about a joint venture of their company in Egypt or the plans had been perished since years. Sometimes the alleged names of the countries, where the counterpart should come from, were wrong. So some German called partners came actually from Liechtenstein or Switzerland or the capital was Arab and invested via the Caiman– Isles.

In the following sections I will deal with four main aspects of the effects of foreign direct investments in Egypt:

- the significance of the projects on the national economic level,
- the direction of sectoral development,
- the investment behaviour of Egyptian and foreign partners,
- and a short analysis of the Egyptian investment policy, which will lead to suggestions for a more effective promotion policy.

I. Significance of the national economic level

The 1974 announced Economic Open– Door– Policy, the Infitâh al–Iqtisâdî, was designed to correct misdevelopments of Nassers's Arab Socialism. A competitive private sector was to be build up with the help of foreign direct investment, but alongside the public sector without changing it. Legislative centrepiece of the Open– Door– Policy was the Investment law 43/1974 which was superseded by a new law 230/1989 in July 1989 .

The results of 16 years of the investment promotion policy remained far behind the expectations. The importance of foreign direct investment compared on the national economic level is negligible. After the boom of the seventies the project development stagnated considerably in the eighties (table 1).

1 The study "Ergebnisse der ägyptischen Politik zur Förderung ausländischer Direktinvestitionen – Deutsche Unternehmensbeteiligungen in den achtziger Jahren" is published in: Orient, 2/ 1989, p. 221– 249.

In 1987 there were approximately 1100 realised projects under the investment law with a total liability capital of only 3 billion US-$[2]. According to the Investment Authority the foreign share in inland-projects reached 55 % or 1.4 billion US-$. From this amount only approximately 260 million US-$ were from the industrialized countries of the OECD. The rest was Arab capital or of unknown origin, presumably from off-shore finance centers like the Caiman Isles or the Bahamas. During the eighties the annual inflow of foreign exchange in the form of liability capital was minimal and amounted only to 36 million US-$ compared with 160 million US-$ during the seventies. In 1989, by the way, only the non- military grants for Egypt reached the amount of 985 million US-$ (see tables 2 and 3).

II. Sectoral developments

The intentions of the Investment Law were lying in the creation of a private sector industry for import substitution and exports. But sectoral developments show misallocations in this regard. A competitive export sector could not be build up. The Free Zone scheme failed. Instead of exporting the main investment motive remains still to satisfy the huge Egyptian domestic market.

Main beneficiary of the investment law is the service sector, where 60 % of the liability capital is invested. Also projects with a short term speculative character have been prefered (see table 4). Financing institutes especially investment companies provide a quarter of all realised projects and nearly half of the total liability capital. The investment companies are mostly of Arab origin. Also in the seventies the construction industries were booming, but the undercapitalized firms among them suffered hard or vanished during the economic crisis of the eighties.

Industrial projects provide 40 % of the realised projects, but they contribute only 29 % to the total liability capital. Reasons for these differences are the existence of a few large industrial joint ventures and a lot of small scale Egyptian enterprises with a more or less symbolic foreign share. Main fields of industrial activity under law 43/1974 are concentrating on the processing of agricultural products, like cotton and food stuff as well as in different industries related with construction.

During the seventies joint ventures with multinational enterprises played an important role regarding capital, management and technology transfer as well as establishing backward linkages for the implementation of the objectives of the investment law. Those enterprises found suitable counterparts in size and production structure within the dominating public sector. They started to produce mainly for public demand, because due to the tender law here there was a clearly regulated market with visible marketing structures. During the eighties a class of joint ventures grew up which produced mainly for private demand, i. e. simple capital goods such as small motor-pumps, or consumer goods like shoes, furniture, optical frames and processed food. But inhibiting factors of growth in producing for private demand are the underdeveloped market structures such as market information, marketing methods and ways of distribution. However, a change in structures of distribution can be observed from

[2] As exchange rate I have taken roughly the now vanished "Foreign Currency Exchange Rate with varying Prime within the Foreign Currency Pool as Accredited Banks in Force", 1 US-$ = 1.36 LE. It was in force from 1985 to 1988. It was chosen, because it was used during the period in study for all transfers connected with the investment law.

unspecific and partly informal to more modern marketing. This is reflected in a change of opinion of institutions dealing with the joint ventures. Some years ago – following simply structured socialist economic thinking – many of them were impeding consumer goods manufacturing enterprises. Now they start to promote them.

For illustrating this a quotation of Mr Abu Bakr Zeitun, Director of the state-owned Export Development Bank seems to be interesting: "Five or six years ago I thought consumer industries were a waste of money and effort. But I've changed my mind. I see now that some of the bank's clients operating such businesses create work opportunities for a lot of people and that other related industries became viable because of expanding production of the original consumer goods such as snack foods for the multiplier effect is significant"[3].

III. Investment behaviour of Egyptian and foreign entrepreneurs

The investment behaviour of German enterprises in Egypt provides some explanations for the low level of foreign participation. The actual participation rate is much lower than the Investment Authority declared. A systematic screening of investment projects revered a German participation in not more than 32 firms, a quarter less than the Investment Authority has published, and a capital share of only approximately 15 millon US-$, three quarter less than the official announcement. In fact, in most of the companies the German participation remains more or less symbolic. One third of all German capital participations are below 10 % and in two thirds of them the German involvement are below 500,000 LE (Egyptian Pounds) or approximately 350,000 US-$ (see tables 5 and 6).

These mini-participations belong mostly to German plant and machine suppliers. Minority participations are often regarded as a kind of sales financing and marketing. The Egyptian interest in a participation of these companies consists of profiting from the incentives of the Foreign Direct Investment Law 43/1974 and above all of German technology and thereby the establishment of a close relation to a foreign supplier who – in the view of my interview partners – might be more interested in the proper running of the plant if he is participating. So nearly all surveyed firms came into being by the initial step from the Egyptian side. This holds also true for the large joint ventures with multinational enterprises.

The main problem of the Egyptian enterprises lies in providing sufficient management capacities. This again is closely related to maintaining high quality standards and a high productivity level. Successful enterprises with a German capital share but without German management participation are typified by family-directed Egyptian management and by specific strategies to avoid insecurities in their supply structure as well as a demand-oriented selection of capacity and technology. A shoe factory, one of the largest surveyed joint ventures, provides a good example: regarding the annual turnover, liability capital and employment the owner argued, that in case of a further expansion he and his brothers could not hold control of the workers leading consequently to a decrease of quality and thereby sales. The same company tries to avoid the insecurities of the domestic input market by a high degree of integration from tannery to own shoe shops in Cairo and Alexandria. Other firms limit the

[3] Business Monthly, Journal of the American Chamber of Commerce in Egypt 9/ 1987, p. 19

number of domestic suppliers or provide themselves by imports. On the other hand, some less successfull firms had their production line composed by machines of different capacity which did not fit together or tried to build up an electric switchgear system within the company without sufficient skill. Consequently the result is that the whole production line never runs satisfactorily. For goods of private demand a development can be noted from unspecific, and in part informal, to modern marketing methods, like company owned stores and after sale service. Some of those firms started as importers and trade agents for German companies.

In order to be present at the Egyptian market most foreign companies were content with the establishment of agencies or technical representatives. They do not consider direct investment as a tool for market access. Only 8 out of 32 companies have a capital share of over 50 % or are managed partly or entirely by Germans; three quarters of the entire German capital share belong to them. These are the only real foreign direct investments according to the international definition[4]. All but one are joint ventures with multinational partners like the German Höchst AG (dyes and pharmaceuticals) or Ferrostaal (steel constructions). They found their counterpart, which corresponds to them in size, capital and know how within the all over dominating public sector. Though in some of these firms the still undecided conflict between public and private economomic interests produced negative effects for the companies performance.

IV. Remarks about the Egyptian investment and economic policy

To what extent is the Egyptian Economic policy responsable for these unsatisfying results?

Some reasons for this weak performance over the years are the political deficiency of steering sectoral development and the lack of consistent economic legislation and procedure. The Investment law 43/1974 and the replacing law 230/1989 do not give any indication of economic priorities or of sectoral preferences[5]. This has the effect that apparently the incentives attract investment companies far more than industrial enterprises with long initial periods. The Investment Authority is not in the position of assuring an efficient control, auditing or at least sufficient consultation to the projects. The inconsistent economic legislation especially regarding foreign exchange and the tender law discriminate the domestic private sector against the state-owned industry and sometimes also against foreign suppliers. For due to the foreign exchange legislation and the highly subsidized access to foreign exchange for public sector enterprises and authorities sometimes the import is much cheaper for them than

4 Haubold, Dietmar: Direktinvestitionen und Zahlungsbilanz, Hamburg, 1972, p. 23

5 This was confirmed by an answer of Mr Mohieddin Ghareeb, head of the GAFI, on a question from the audience during a panel held by the German-Arab Chamber of Commerce on September 6th 1989 about the new Investment Law 230/1989. He told the audience that they hadn't implemented any sectoral preferences into the law, because it should be open for all kinds of investors.

corresponding domestic supplies. On the other side the domestic suppliers have to finance their necessary imports by foreign exchange far more expensive on the black market.

All these difficulties must be seen against the background of the undecided controversy between public and private sector on the Open – Door – Policy since sixteen years. One of the main problems for the investor in the seventies were that for approval they had to deal with different authorities hostile to each other. In recent years there was a remarkable success in strengthening the influence of the GAFI against the mighty Nasserist Ministry of Industry and of filiates. In most cases now the GAFI is regarded as the only competent decision – making authority to which the investor has to apply.

This controversy also had a negative influence on the huge potential of cooperation. Investments of multinational enterprises have been a major source for management, technology and capital transfer. They also have been vanguards for backward linked local production. During the early years of the Open – Door – Policy joint ventures with public enterprises were supported, but met with massive resistance from the state – owned industry later. Since nearly three years – after the economic crisis of 1986 – until recently the opponents of the private sector had gained ground because of the bad economic situation and the growing social insecurity which were interpreted as a failure of the private sector. In the eighties privatization and joint ventures with state – owned firms were outspokenly excluded. However, in the last year under the impression of the negotiations with the International Monetary Fund (IMF) the obstruing Nasserist Ministry of Industry came under pressure. Now the privatization of non – strategic state – owned enterprises is again discussed and private competition to public sector enterprises will not be blocked any more. Vanguard of this new wave of privatization is the Ministry of Tourism which demonstrated remarkable success in this booming sector.

V. Outlook

Where are chances and tools for a further promotion of the Egyptian private sector?

The future of Egypt's Industry lies solely in its huge unsatisfied domestic market. For the promotion of direct investments in order to build up a competitive industrial structure, the cooperation with multinational enterprises seems to be an important chance[6]. For the further development of the private sector the support of the Egyptian entrepreneurial capacity seems to be necessary. The case study proved that Egyptian entrepreneurs try to get in contact with foreign partners mainly for technical innovation and sometimes for managerial assistance. Institutions for market research, marketing and consulting as public or private schemes should be formed, in order to increase domestic sales and by this to strengthen the main motive for investment in domestic

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6 For different policy approaches in order to assure the integration of multinationals into the national economic policy, cf for example Doo – Soon Ahn: Gemeinschaftsunternehmen in *Entwicklungsländern* – Joint Ventures als Entwicklungsinstrument in den ASEAN – Staaten, (= Bochumer Materialien der Entwicklungsforschung und Entwicklungspolitik), Tübingen 1981

production. However, such institutions still do not exist in Egypt[7]. For the strengthening of management capacities an improvement of training and continuing education facilities are of great importance. They can be offered by Egyptian universities and the different chambers of commerce. For example, since 1987 the German-Arab Chamber of Commerce offered export seminars for Egyptian entrepreneurs. Most of the joint ventures came into being by previous business or private contacts of the partners. Consequently, a further promotion of mutual trade and visits of trade fairs seems to be a suitable means for creating an atmosphere for contact and cooperation.

7 Sometimes market and feasibilty studies are effectuated by the foreign chambers of commerce. Feasibility studies and market research done by the GAFI mostly rely on the priorities of the Five-Year-Plan and official economic information of the Central Authority for Public Mobilisation and Statistics (CAPMAS). However they are far from relevant for the potential investor and often not very trustworthy. Sometimes joint-venture banks offer a reliable project oriented consulting.

TABLE 1: DEVELOPMENT OF THE LAW 49/1974 PROJECTS DURING THE EIGHTIES

date	appro-vals	realised projects	Inland/	Free Zones	approved capital in realised projects in mio LE
31/12/81	1 626	651	436	215	1 406
31/12/82	1 634	802	552	250	1 968
31/12/83	1 732	902	650	252	2 598
31/12/84	1 637	1 017	760	257	3 376
31/12/85	1 631	1 042	798	244	4 102
31/12/86	1 623	1 047	806	241	4 204
31/ 6/87	1 630	1 058	820	238	4 294
31/12/87	1 659	1 066	828	238	4 322

Sources: GAFI: Facts and Figures up to 31/12/1981 and following publications

TABLE 2: FOREIGN PARTICIPATION IN PROJECTS ACCORDING LAW 43/1974 UP TO 30/9/1986

country	realised projects			
	number		capital participation in thousand LE	
	Inland	Free Zones	Inland	Free Zones
North America				
USA	56	20	106 013	43 484
Canada	2	2	2 400	97
European Community				
FR Germany	42	5	76 891	1 360
Luxembourg	36	3	59 595	6 180
France	32	5	36 240	1 392
United Kingdom	38	9	34 189	14 536
Italy	14	3	8 519	2 348
Greece	3	5	2 400	8 248
Danmark	2	1	4 238	175
Belgium	7	1	2 097	140
Netherlands a) d)	n.a.	n.a.	n.a.	n.a.
Spain a) e)	n.a.	n.a.	n.a.	n.a.
Ireland a)	0	0	0	0
Portugal a)	0	0	0	0
other OECD – countries				
Norway	1	1	400	127
Sweden	0	1	0	241
Finland	0	1	0	1 120
Switzerland	36	9	16 822	2 318
Austria	2	1	235	770
Japan	6	2	7 472	5 705
OECD total f)	277	70	357 511	88 241
Arab countries				
Saudi – Arabia b)	87	10	129 342	35 179
Qatar c) g)	5	2	6 669	67 340
Iraq a) g)	24	4	15 000	861
Kuwait b)	54	11	134 115	177 739
Total	170	27	285 126	281 119
other non – Arab Countries				
Iran g)	n.a.	8	n.a.	95 132

Sources: GAFI, Country – lists concerning investing projects
a) up to 30/6/86; b) up to 1/3/87; c) up to 31/12/86;
d) approved projects: Inland 15, participation 6.2 mio LE; in Free Zones 4, participation 2.0 mio LE;
e) approved projects: Inland 10, participation 11.1 mio LE; in Free Zones: 3, participation 2.6 mio LE;
f) exc. Netherlands, Spain, Australia, Iceland, Turkey;
g) the project – list doesn't state whether these are approved or realised projects.
*) n.a. – not available

TABLE 3: APPROVED CAPITAL IN REALISED PROJECTS CONCERNING DOMESTIC AND FOREIGN CAPITAL PARTICIPATION UP TO 31/12/1987

number of projects/ relative share	in mio LE	approx. mio US-$
total number: 1 066 projects	4 322	3 000
Inland, without Free Zones: 828 projects	3 440	2 500
- of them: foreign share 55 %	1 900	1 400
- of them: OECD- Countries	358	260
Arab Countries a)	258	180

Sources: GAFI, Facts and Figures up to 31/12/1987
a) GAFI, Country-Project List see Table 2.

The statistics are based on aggregated data from GAFI. They are compiled from individual data of every project. The enormous difference between the aggregated sum of 1 900 mio LE and the proved data of 616 mio LE could not be wholly clarified. Possible are statistical errors by GAFI for propaganda purposes and investments via off-shore finance places.

TABLE 4: SECTORAL DISTRIBUTION OF REALISED PROJECTS UP TO 31/ 12/ 1987

Sector	realised projects	
	number of projects	approved capital in mio LE[a)]
Inland		
Banking and Finance	215	1 572
other Services	147	501
Industry	318	1 012
Construction Industries	104	188
Agriculture	44	167
Total	828	3 440
Free Zones	238	882
Total:	1 066	4 322

Source: GAFI, Facts and Figures up to 31/12/1987
a) according the feasibility studies

TABLE 5: RELATIVE GERMAN CAPITAL SHARE

capital share	number of firms
91 – 100 %	–
81 – 90 %	–
71 – 80 %	1
61 – 70 %	–
51 – 60 %	4
41 – 50 %	3 a)
31 – 40 %	3
21 – 30 %	4
11 – 20 %	6
0 – 10 %	10
unknown	1
Total	32

Source: Own inquiry and GAFI – May 1988
a) in one service sector company originally a share of 49 % was taken, the actual share is unknown but considerably lower.

TABLE 6: ABSOLUTE GERMAN CAPITAL SHARE

Capital Share in mio LE	number of firms
4.1 – 5.0 mio	1
3.1 – 4.0 mio	1
2.1 – 3.0 mio	–
1.1 – 2.0 mio	3
0.6 – 1.0 mio	5
0.0 – 0.5 mio	20
unknown	1
Total	31 a)

Source: own inquiry and GAFI – May 1988
a) two legally devided companies of the Hoechst AG under a common management were regarded as one German capital participation.