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**Foreign Trade Regimes  
and Economic Development:  
EGYPT**

# **Foreign Trade Regimes and Economic Development:**

*A Special Conference Series  
on Foreign Trade Regimes  
and Economic Development*

VOLUME IV

NATIONAL BUREAU OF ECONOMIC RESEARCH  
*New York 1975*

# EGYPT

by **Bent Hansen**

UNIVERSITY OF CALIFORNIA, BERKELEY

**Karim Nashashibi**

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*A Special Conference Series on Foreign Trade Regimes  
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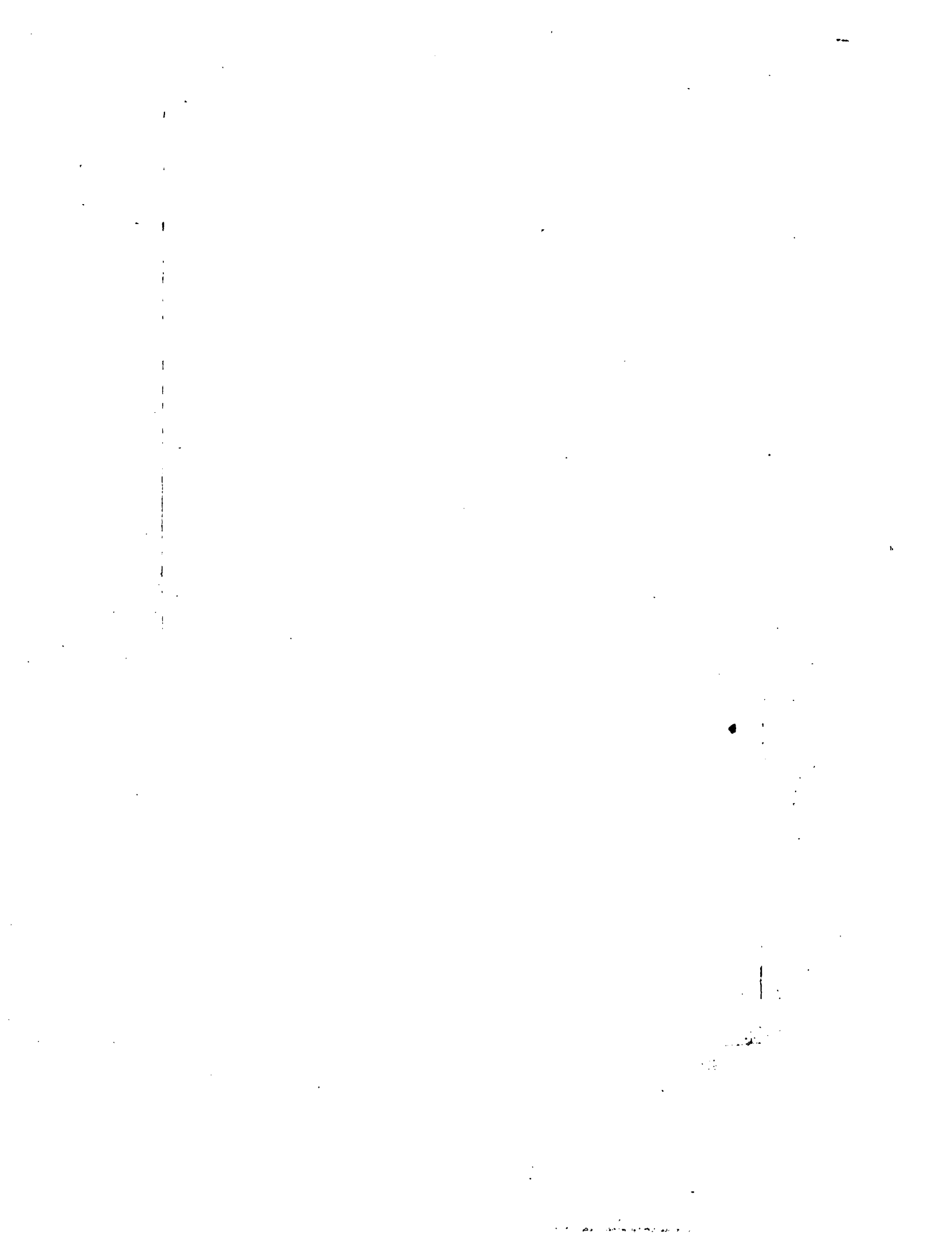


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The individual country studies have not passed through the National Bureau's normal procedures for review and approval of research reports by the Board of Directors. In view of the way in which these studies were planned and reviewed at successive working parties of authors and Co-Directors, the National Bureau's Executive Committee has approved their publication in a manner analogous to conference proceedings, which are exempted from the rules governing submission of manuscripts to, and critical review by, the Board of Directors. *It should therefore be understood that the views expressed herein are those of the authors only and do not necessarily reflect those of the National Bureau or its Board of Directors.*

The synthesis volumes in the series, prepared by the Co-Directors of the project, are subject to the normal procedures for review and approval by the Directors of the National Bureau.

# Contents

<i>Co-Directors' Foreword</i>	xxi
<i>Acknowledgments</i>	xxiv
<i>Principal Dates and Historical Events</i>	xxix

Introduction	xxxi
--------------	------

## PART ONE

### Foreign Exchange Regimes in Egypt, 1946–1969

<b>Chapter 1: Foreign Trade in the Egyptian Economy</b>	3
Ninety Years of Free Trade, 1840–1930	3
Protectionism and the Beginning of Industrialization, 1930–1950	4
The Economic Policies of the Nasser Regime	5
The New Economic System	8
National Production and Expenditures, 1947 to 1969–70	11
Foreign Trade and Balance of Payments, 1947–1969	15

<b>Chapter 2: Foreign Exchange Regimes, 1945–1961: Oscillations between Phases I, II, and V</b>	25
The Postwar Recovery	26
The Dollar Shortage, Triangular Transactions, and the Export Pound: Phase I	26
The Korean Boom and Import Liberalization in Egypt: Phase V	32
Post-Korean Recession, Licensing, and the Import Entitlement System: The Beginning of Phase II	39
Bilateral Trade	43
The Abolition of the Export Pound and Import Entitlements, 1955	44
Economic Recovery after 1956 and the Shift toward East Bloc Trade	45
The Foreign Exchange Budget	46
Export Premium Systems and Import Duties, 1957–1961	46
The Nationalization of Foreign Trade, 1961	50
Foreign Exchange Crisis and Devaluation, 1962	50
<b>Chapter 3: The Effective Exchange Rate, 1948–1961: An Appraisal</b>	53
The Concepts of Average Depreciation and Price Distortion	53
The Statistical Picture	55
World Business Conditions and Average Depreciation in Egypt	65
The Overvaluation of the Egyptian Pound	67
Domestic Policies and Balance of Payments Deficits	68
Foreign Exchange Policy Targets	72
Countercyclical Exchange Rate Policy	75
An Appraisal of the Effective Exchange Rate Policy	81
Allocational Effects of Exchange Policies	86
<b>Chapter 4: The Devaluation of 1962</b>	89
The Foreign Exchange Crisis of 1962	89
The Position of Agriculture	91
The Effects on Manufacturing	95
General Appraisal of the Devaluation of 1962	101
Devaluation in a Controlled Economy	103
<b>Chapter 5: The Administration of Foreign Trade and Foreign Exchange since 1961</b>	107
Economic Stagnation and Foreign Payments Collapse: 1964–1967	108
Developments after the 1967 War	121

CONTENTS

xi

The Administrative System	122
Appraisal of the System's Performance	125

**PART TWO**

Protection, Controls, and Competitiveness in Egyptian Agriculture

<b>Chapter 6: Basic Characteristics of Egyptian Agriculture</b>	<b>137</b>
Outputs, Inputs, and Value Added	137
The Irrigation System	139
Crop Rotation	143
Supply (Acreage) Elasticities for Field Crops (1913–1961)	147
Quantitative Restrictions in Agriculture	150
<b>Chapter 7: The Impact of Protection and Controls on Agriculture</b>	<b>158</b>
The Protective Position, 1961–1968	158
An Attempt to Quantify the Suboptimality of Crop Policies, 1962–1968	167
Agricultural Pricing and Income Distribution	194
Final Remarks	197

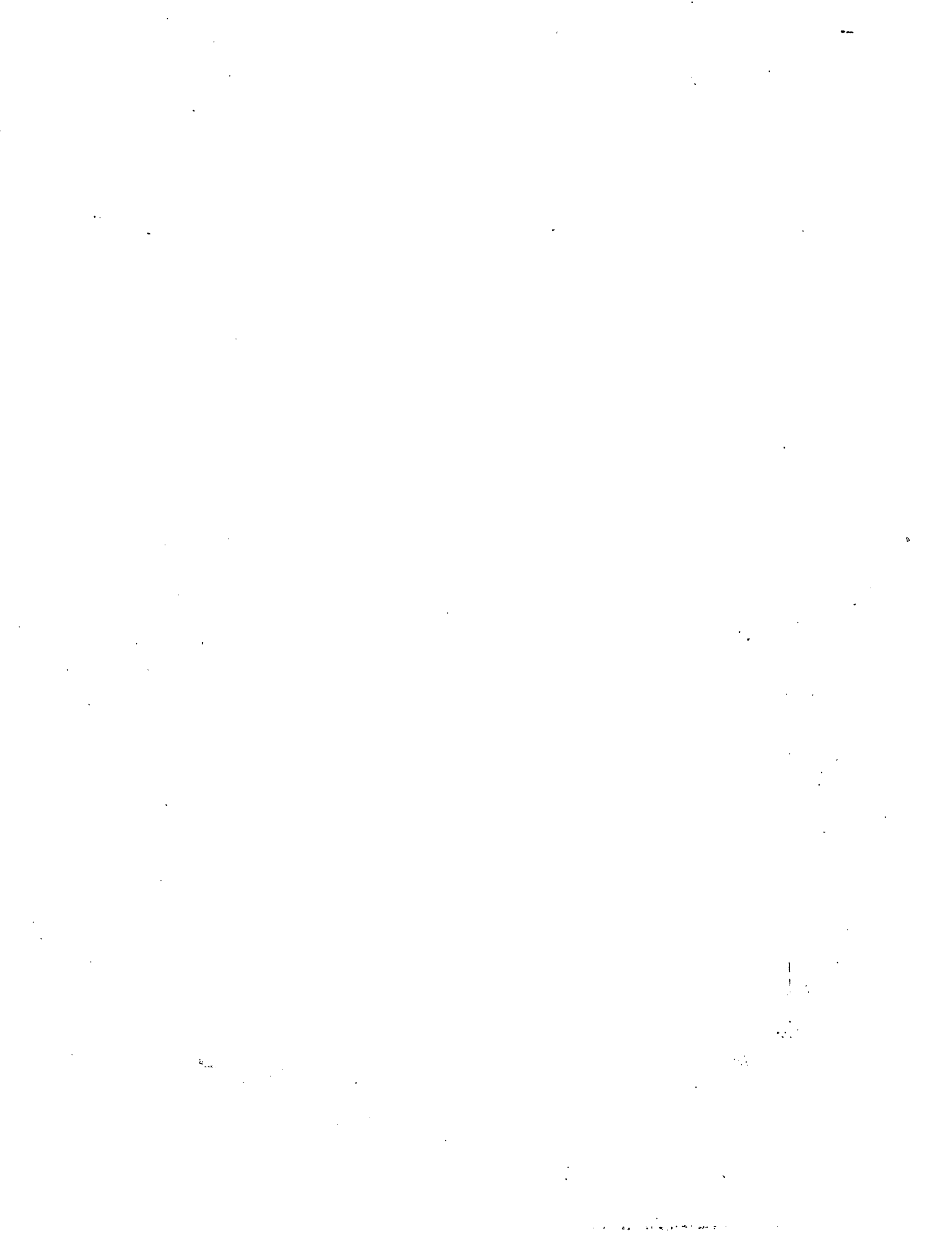
**PART THREE**

Protection, Controls, and Competitiveness in Egyptian Industry

<b>Chapter 8: The Traditional Industries</b>	<b>203</b>
The Cotton Spinning and Weaving Industry	206
The Sugar Industry	228
The Cement Industry	242
<b>Chapter 9: Efforts to Broaden the Industrial Structure:</b>	
<b>The New Industries</b>	<b>255</b>
Fertilizers	255
The Rubber Tire Industry	271
The Pulp and Paper Industry	277
The Iron and Steel Industry	283
The Automobile Industry	298

<b>Chapter 10: Evaluation of Resource Use in Selected Manufacturing Industries, 1954–1970</b>	309
<b>Appendix A: Acreage Response Functions for Eleven Egyptian Field Crops</b>	317
A Model for Crop Acreage Response	317
Method of Estimation	331
Results of Estimations	333
Predictions of Acreages, 1962–1968	338
References to Appendix A	344
<b>Appendix B: Definition of Concepts and Delineation of Phases</b>	347
<i>Index</i>	353

## **Tables and Charts**



## Tables

1-1	Gross Domestic Product: Growth Rate and Sectoral Origin, 1947 to 1968-69	12
1-2	Gross National Product and Gross Domestic Product: Distribution by Expenditure Category	13
1-3	Egypt's Balance of Payments, 1950-67	16
1-4	Exports by Commodity Group, 1950-68	20
1-5	Imports by Commodity Group, 1950-68	21
1-6	Egypt's Trade with Eastern Europe	22
2-1	Production, Income, and Foreign Trade, 1945-49	27
2-2	Trade with Sterling Area and Nonsterling Countries, 1946-50	28
2-3	Exchange Rates for the Egyptian Pound	33
2-4	Depreciation through the Export Pound	34
2-5	Cotton Prices, Terms of Trade, and Foreign Trade, 1949-53	34
2-6	Prices and Wages	35
2-7	National Income and Production, 1949-53	35
2-8	Egypt's Budget	36
2-9	Production and Foreign Trade, 1953-56	40
2-10	Trade with Sterling Area and Nonsterling Countries, 1951-57	41
2-11	Egypt's Balance of Payments with Bilateral Agreement Countries	43
2-12	Distribution of Current Payments and Receipts by Country Group, 1954 and 1957	47
3-1	Average Net Effective Depreciation (+) or Appreciation (-) Compared with 1947: Exports	56

3-2	Average Net Effective Depreciation (+) or Appreciation (-) Compared with 1947: Imports	60
3-3	Average Depreciation and Index of Distortion, 1947-62	62
3-4	Depreciation of the Egyptian Pound on "B-Accounts"	63
3-5	Prices and Money Supply, 1949-62	70
3-6	Foreign Exchange Reserves, All Banks	73
4-1	Growth Rate of Gross Domestic Product and National Expenditure, 1957-58 to 1963-64	91
4-2	Domestic Value Added (DVA), Effective Rate of Protection (ERP), and Domestic Resource Cost (DRC) in Agriculture, 1961, 1963, and 1964	93
4-3	Outputs, Inputs, and Profits in Manufacturing Industry, 1960 to 1965-66	96
4-4	Domestic Resource Costs (DRCs) in Selected Manufacturing Industries before and after the Devaluation of 1962	100
5-1	Economic Indicators, 1963-64 to 1970-71	109
5-2	Money Supply, 1962-68	110
5-3	Imports, 1963-68	111
5-4	Exports, 1963-68	112
5-5	Inventories in State-Owned Industrial Enterprises	113
5-6	Distribution of Foreign Trade by Area, 1961-68	120
5-7	Foreign Exchange Quotas Allocated to Various Ministries and Organizations in the Fiscal Year 1963-64	124
6-1	Production Account, 1965	138
6-2	Major Field Crops, 1965	140
6-3	Average Elasticities of Crop Acreages	148
7-1	Effective Rates of Protection (ERPs) and Domestic Resource Costs (DRCs) for Major Field Crops, 1961, 1963, and 1964	160
7-2	Example of Domestic Resource Costs for Full Three-Year Rotation	163
7-3	Nominal de facto Protection (+) or Taxation (-), Nine Major Field Crops, 1961-69	164
7-4	Cotton Acreage, Export Volume, and International Prices, 1962-63 to 1968-69	174
7-5	Ranking of Crops in 1963 According to ERP, DRC, and Alternative Measures of Acreage Misallocation	189
7-6	Misallocation of Land, Average 1962-68	191
7-7	Income in Agriculture, 1961	195
8-1	Employment, Wages and Salaries, and Value Added in Manufacturing Industry, 1966-67	204
8-2	Cotton Consumption by Domestic Spinning Mills and Yarn Imports	208

## TABLES

xvii

8-3	Cotton Textile Exports	212
8-4	Rates of Return, ERPs, and DRCs in the Cotton Textile Industry	219
8-5	Implicit Tariff Rates for Textiles	222
8-6	Productivity Indicators in Egyptian Cotton Spinning and Weaving	224
8-7	Public versus Private Sectors in the Cotton Weaving Industry, 1965-66	227
8-8	Price Series for Raw and Refined Sugar	232
8-9	ERPs and DRCs in the Integrated Sugar Industry	237
8-10	Full Three-Year Rotations: Sugar and Alternative Rotation	240
8-11	Exports of Egyptian Cement: Tonnage and Prices	245
8-12	Cement Industry: ERPs, DRCs, Return to Capital, and Performance Indicators	246
9-1	Phosphate Fertilizer Industry: ERPs, DRCs, and Performance Indicators	258
9-2	Nitrogenous Fertilizer Prices, 1951-68	264
9-3	Nitrogenous Fertilizer Industry: ERPs, DRCs, and Performance Indicators	266
9-4	Tire Industry: Rates of Return, ERPs, and DRCs	275
9-5	Paper Industry: Production, Imports, and Prices	280
9-6	Paper Industry: Rates of Return, ERPs and DRCs, 1962-63	284
9-7	Domestic and Import Prices of Steel Products	286
9-8	Value Added, Profits, DRC, and ERP at the Helwan Steel Plant, 1964-65	292
9-9	Steel Industry: Costs and Performance Indicators in Egypt and Other Countries, Selected Years	295
9-10	Automobile Industry: Production and Imports, 1954-71	300
9-11	Automobile Industry: Rates of Return, ERPs, and DRCs, 1963-64	303
10-1	Effective Rates of Protection (ERPs) in Ten Manufacturing Industries, Selected Years	310
10-2	Domestic Resource Costs (DRCs) in Ten Manufacturing Industries, Selected Years	311
A-1	The Impact of Upper Limits to Cotton Cultivation	330
A-2	Results of Estimates of Acreage Response Functions	334
A-3	Acreage Predictions, 1962-68	339
A-4	Relative Value of Output $F_i$ , 1961-68	340

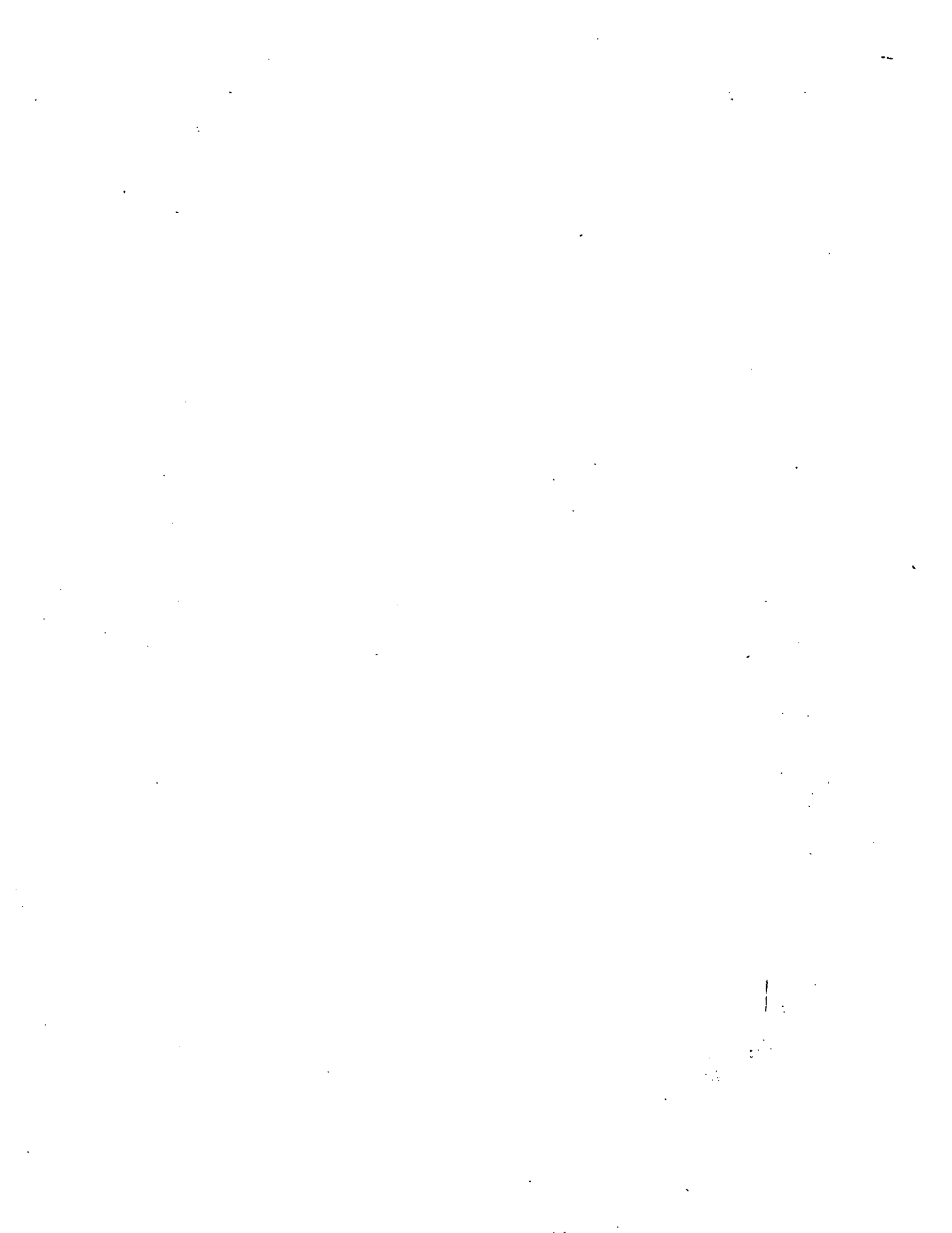
## Charts

1-1	Exports and Imports as Percentages of GNP, 1938-39 to 1969-70	19
3-1	Gold Prices	64
3-2	Cotton Prices and Average Depreciation	66
3-3	Cotton: Output, Exports, Price, Stocks, 1946-62	79
6-1	Dates of Sowing and Harvesting Important Egyptian Crops	145
7-1	Cotton: Actual versus Predicted Crop Areas	172
7-2	Rice: Actual versus Predicted Crop Areas	175
7-3	Corn: Actual versus Predicted Crop Areas	177
7-4	Millet: Actual versus Predicted Crop Areas	178
7-5	Wheat: Actual versus Predicted Crop Areas	179
7-6	Barley: Actual versus Predicted Crop Areas	181
7-7	Onions (Winter): Actual versus Predicted Crop Areas	182
7-8	Beans: Actual versus Predicted Crop Areas	183
7-9	Lentils: Actual versus Predicted Crop Areas	184
7-10	Helba: Actual versus Predicted Crop Areas	185
7-11	Sugar: Actual versus Predicted Crop Areas	186
8-1	Cotton Textiles: Production and Exports, 1948-71	211
8-2	Exports of Raw Cotton and Cotton Textiles, 1950-72	215
8-3	Cotton Prices, 1948-72	216
8-4	Sugar: Production and Consumption, 1939-71	230
8-5	Cement: Production and Trade, 1925-70	244
9-1	Phosphate Fertilizers: Production and Trade, 1947-71	256
9-2	Nitrogenous Fertilizers: Production and Imports, 1950-71	263

CHARTS

xix

9-3	Rubber Tires: Production and Trade, 1956-70	273
9-4	Paper: Production and Imports, 1950-70	278
9-5	Iron and Steel Products: Production, Consumption, and Imports, 1950-71	289
A-1	Limits to and Reduction of Cotton Acreage	328
A-2	Response to Area Restrictions	341



## **Co-Directors' Foreword**

This volume is one of a series resulting from the research project on Exchange Control, Liberalization, and Economic Development sponsored by the National Bureau of Economic Research, the name of the project having been subsequently broadened to Foreign Trade Regimes and Economic Development. Underlying the project was the belief by all participants that the phenomena of exchange control and liberalization in less developed countries require careful and detailed analysis within a sound theoretical framework, and that the effects of individual policies and restrictions cannot be analyzed without consideration of both the nature of their administration and the economic environment within which they are adopted as determined by the domestic economic policy and structure of the particular country.

The research has thus had three aspects: (1) development of an analytical framework for handling exchange control and liberalization; (2) within that framework, research on individual countries, undertaken independently by senior scholars; and (3) analysis of the results of these independent efforts with a view to identifying those empirical generalizations that appear to emerge from the experience of the countries studied.

The analytical framework developed in the first stage was extensively commented upon by those responsible for the research on individual countries, and was then revised to the satisfaction of all participants. That framework, serving as the common basis upon which the country studies were undertaken, is further reflected in the syntheses reporting on the third aspect of the research.

The analytical framework pinpointed these three principal areas of research which all participants undertook to analyze for their own countries.

Subject to a common focus on these three areas, each participant enjoyed maximum latitude to develop the analysis of his country's experience in the way he deemed appropriate. Comparison of the country volumes will indicate that this freedom was indeed utilized, and we believe that it has paid handsome dividends. The three areas singled out for in-depth analysis in the country studies are:

1. *The anatomy of exchange control*: The economic efficiency and distributional implications of alternative methods of exchange control in each country were to be examined and analyzed. Every method of exchange control differs analytically in its effects from every other. In each country study care has been taken to bring out the implications of the particular methods of control used. We consider it to be one of the major results of the project that these effects have been brought out systematically and clearly in analysis of the individual countries' experience.

2. *The liberalization episode*: Another major area for research was to be a detailed analysis of attempts to liberalize the payments regime. In the analytical framework, devaluation and liberalization were carefully distinguished, and concepts for quantifying the extent of devaluation and of liberalization were developed. It was hoped that careful analysis of individual devaluation and liberalization attempts, both successful and unsuccessful, would permit identification of the political and economic ingredients of an effective effort in that direction.

3. *Growth relationships*: Finally, the relationship of the exchange control regime to growth via static-efficiency and other factors was to be investigated. In this regard, the possible effects on savings, investment allocation, research and development, and entrepreneurship were to be highlighted.

In addition to identifying the three principal areas to be investigated, the analytical framework provided a common set of concepts to be used in the studies and distinguished various phases regarded as useful in tracing the experience of the individual countries and in assuring comparability of the analyses. The concepts are defined and the phases delineated in Appendix A.

The country studies undertaken within this project and their authors are as follows:

Brazil	Albert Fishlow, University of California, Berkeley
Chile	Jere R. Behrman, University of Pennsylvania
Colombia	Carlos F. Díaz-Alejandro, Yale University
Egypt	Bent Hansen, University of California, Berkeley, and Karim Nashashibi, International Monetary Fund
Ghana	J. Clark Leith, University of Western Ontario

India	Jagdish N. Bhagwati, Massachusetts Institute of Technology, and T. N. Srinivasan, Indian Statistical Institute
Israel	Michael Michaely, The Hebrew University of Jerusalem
Philippines	Robert E. Baldwin, University of Wisconsin
South Korea	Charles R. Frank, Jr., Princeton University and The Brookings Institution; Kwang Suk Kim, Korea Development Institute, Republic of Korea; and Larry E. Westphal, Northwestern University
Turkey	Anne O. Krueger, University of Minnesota

The principal results of the different country studies are brought together in our overall syntheses. Each of the country studies, however, has been made self-contained, so that readers interested in only certain of these studies will not be handicapped.

In undertaking this project and bringing it to successful completion, the authors of the individual country studies have contributed substantially to the progress of the whole endeavor, over and above their individual research. Each has commented upon the research findings of other participants, and has made numerous suggestions which have improved the overall design and execution of the project. The country authors who have collaborated with us constitute an exceptionally able group of development economists, and we wish to thank all of them for their cooperation and participation in the project.

We must also thank the National Bureau of Economic Research for its sponsorship of the project and its assistance with many of the arrangements necessary in an undertaking of this magnitude. Hal B. Lary, Vice President-Research, has most energetically and efficiently provided both intellectual and administrative input into the project over a three-year period. We would also like to express our gratitude to the Agency for International Development for having financed the National Bureau in undertaking this project. Michael Roemer and Constantine Michalopoulos particularly deserve our sincere thanks.

JAGDISH N. BHAGWATI  
Massachusetts Institute of Technology

ANNE O. KRUEGER  
University of Minnesota

## Acknowledgments

Gathering statistics and other basic information has been one of the major difficulties in our work on this book, which, in several instances, has been severely limited by the lack of data. Egypt may have better statistics than many other less developed countries, but what does exist is not always easily accessible, and administrative practices are, more often than not, difficult to uncover and describe systematically. In this and other respects we are much indebted to Abdel Moneim El Kaissouni, General Manager of the Egyptian International Bank for Foreign Trade and Development; Nazih A. Deif, Executive Director of the International Monetary Fund; Mahmoud Sidky Mourad, formerly Deputy Minister of the Economy and Foreign Trade; Levon Kisheshian, correspondent to *El Ahrām*; Said Sonbol, editor, *Akhbar El Yom*; and Mohammed El Sayed Oweida, librarian at the Institute of National Planning, Cairo. Without their great helpfulness substantial parts of the monograph could not have been written.

Much useful information was also obtained on visits to the FAO office in Cairo, the GATT organization in Geneva, and the foreign exchange control authorities in Cairo. Wyn F. Owen, of the University of Colorado, Boulder, read Part Two and gave us valuable comments on agricultural problems.

On the more technical level, we acknowledge statistical, econometric, and computational assistance from Khairy Tourk and Rabab Kreidieh Ward. Thomas Rothenberg, University of California, Berkeley, advised us on econometric problems. We are also grateful to Hedy D. Jellinek for editing the manuscript, and to H. Irving Forman for drawing the charts.

The study of response functions in Appendix A was made possible

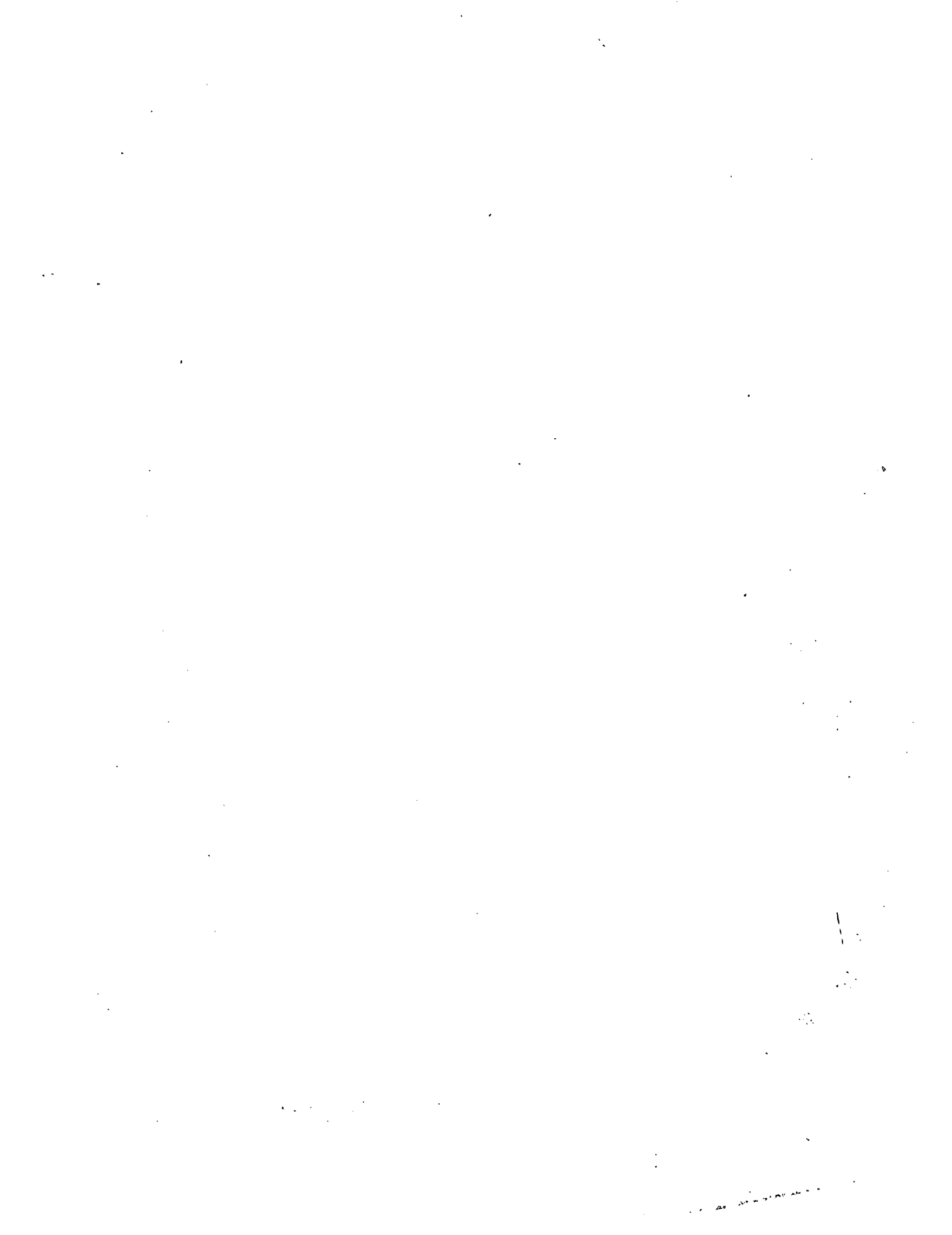
through a grant from the Institute of International Studies at the University of California, Berkeley. The University supplied free computer time.

Last but not least, we must express our gratitude for the continuous flow of comments and advice received during the last two years from the co-directors of the project, Jagdish Bhagwati and Anne Krueger, and from Hal Lary of the National Bureau of Economic Research, who read draft after draft and often caused us to reconsider results, reorganize material, and clarify obscure points. To have had continuous access to their expert opinion has made participation in this project an unusually rewarding experience for the authors.

This study was undertaken as part of the National Bureau of Economic Research project on exchange control, liberalization, and economic development, under a research contract with the Agency for International Development. Research for the study was carried out at the University of California at Berkeley and at the United Nations in New York prior to the appointment of one of the authors to the staff of the International Monetary Fund. The views expressed in this book are entirely the authors' own.

Finally, we want to call the reader's attention to the authors' NBER Working Paper No. 48, entitled "Protection and Competitiveness in Egyptian Agriculture and Industry," which presents details of the calculations of ERPs and DRCs for both agriculture (Chapter 7) and industry (Chapters 8 and 9), together with the statistical material used in estimates of acreage response functions and elasticities (Chapter 6 and Appendix A) and crop area predictions (Chapter 7), as well as some international comparisons of the competitiveness of Egyptian industries. This Working Paper is available from the National Bureau on request.

BENT HANSEN  
KARIM NASHASHIBI



**Foreign Trade Regimes  
and Economic Development:  
EGYPT**



## **Principal Dates and Historical Events in Egypt**

- 1805 Accession of Mohammed Ali.
- 1830 Introduction of long staple cotton (Jumel).
- 1834 Start of Delta Barrage construction at the bifurcation of the Nile near Cairo.
- 1838 Free Trade Treaty between Great Britain and the Ottoman Empire.
- 1863–65 Cotton boom (related to the Civil War in the United States).
- 1869 Inauguration of Suez Canal.
- 1882 British occupation; appointment of Lord Cromer as British agent and Consul General.
- 1890 Delta Barrage is brought into effective use.
- 1902 Inauguration of Aswan Dam.
- 1907 Resignation of Cromer and appointment of Sir Eldon Gorst.
- 1914 Egypt is declared a British protectorate.
- 1920 Establishment of Bank Misr.
- 1922 Accession to independence (in principle).
- 1930 Imposition of a new customs tariff.
- 1947 Egypt leaves the sterling area.
- 1948 Palestinian War.
- 1949 Devaluation of Egyptian pound following sterling.
- 1950 First general election; formation of a nationalistic government.
- 1951 Korean cotton boom.
- 1952 July: Coup d'etat by the Free Officers.  
September: Creation of a Permanent Council for the Development of National Production.  
Land reform limiting property to 200 feddans.

- 1954 February: Gamal Abd el Nasser takes over.  
July: Agreement on withdrawal of British troops from Canal Zone.
- 1955 February: Israeli attack on Gaza.  
September: Arms deal with Chechoslovakia.
- 1956 July: Withdrawal of United States and United Kingdom from Aswan High Dam finance and end of IBRD participation in the project.  
Nationalization of Suez Canal.  
October: Suez War.
- 1957 January: Creation of Economic Organization for Public Investment; launching of industrial plan.  
Egyptianization laws for financial and trading institutions.
- 1958 February: Union with Syria; formation of the United Arab Republic.  
Russian commitment to finance Aswan High Dam.
- 1960 Nationalization of Bank Misr and the National Bank of Egypt.
- 1960-61 to  
1964-65 First Five-Year Plan.
- 1961 July: Nationalization of most industrial firms and foreign trade.  
Reduction of land holdings to 100 feddans per individual.  
September: Withdrawal of Syria from Union.
- 1962 May: Devaluation of the Egyptian Pound.  
September: Egyptian troops intervene in Yemen following military coup.
- 1963 April: Nationalization of cotton export firms, ginning mills, and some industrial firms.  
October: Formation of the Arab Socialist Union and proclamation of the Charter.
- 1964-65 Stabilization Policy.
- 1965 Abrogation of U.S. credits (PL 480).
- 1967 June War.
- 1970 July: Inauguration of Aswan High Dam.  
September: Death of Nasser.