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Chapter 1

Foreign Trade in the Egyptian Economy

This study highlights foreign trade and exchange controls in Egypt and their impact on economic development during the two decades between World War II and the June 1967 War. The full picture, of course, emerges only in the context of the country's overall economic policy, against the background of its general economic conditions. At the same time, a detailed survey of the Egyptian economy and its development is clearly beyond the scope of a specialized study like ours; moreover, several general surveys are easily accessible to the reader.[1] For these reasons we limit ourselves here to a brief sketch of some major historical, economic, and political features important to foreign trade and exchange policies.

NINETY YEARS OF FREE TRADE, 1840–1930

During the first decades of the nineteenth century, the viceroy Mohammed Ali made an abortive attempt to develop Egypt into an autarchic industrial economy.[2] His policies collapsed around 1840, when agreements between the European powers and the Sublime Porte—of which Egypt, in principle, was a dependency—gave foreigners full freedom of trade and navigation in the country and led to the abolition of government monopolies in trade and production.[3] Until 1930, Egypt continued under a regime of almost perfectly free trade.[4] The conventions signed by the Porte limited import duties to 5 percent ad valorem, later increased to 8 percent, with a few exceptions varying over time. At the end of the twenties the tariff for kerosene was 4 percent, for construction timber, 10 percent, and for gasoline and lubricants, 15 percent. Except for special, higher rates for alcohol and tobacco, the uniform 8 percent ad valorem rate was applied to all other imports.[5] A general export duty was first levied at 12 percent ad valorem, but soon lowered to 1 percent. Direct controls were virtually nonexistent, with one important exception from 1916 on: a ban on imports of foreign cotton, which we shall discuss in detail later.

During close to a century of free trade the Egyptian cotton economy was developed to a high level of perfection, but practically no industrialization took place. The very substantial inflow of foreign capital and financial, commercial, and technical expertise were absorbed in agriculture, trade, finance, and infrastructure. With the wisdom of hindsight, it stands to reason that earlier industrialization might have proved beneficial,[6] and the British have been strongly criticized for their free trade, nonindustrialization policy. In all fairness it should be admitted, however, that generally few obstacles were raised against industrialization,[7] and that the development that actually did take place was in the fields where the country obviously had a natural advantage. Also, the British can hardly be blamed for failing to predict the Great Depression.

PROTECTIONISM AND THE BEGINNING OF INDUSTRIALIZATION, 1930–1950

In 1930 Egypt gained tariff autonomy and immediately used her freedom to reform the tariff system in a protectionist direction.[8] Raw materials and fuel were now taxed at lower rates than before; semimanufactured goods, at about the old level, at 6 to 8 percent; and manufactured goods, at 15 to 30 percent. In most cases the duties were specific. During the 1930s they were increased very substantially for manufactured goods such as textiles and footwear. A general import tax of 1 percent ad valorem was introduced in 1932 and subsequently increased. The sugar industry was particularly favored through a variable tariff that kept domestic prices at a high level independently of fluctuations in the world market price of raw sugar. In addition to the tariff reform, the government started supporting industries through subsidies, cheap loans, and other measures.

Behind the tariff wall the few existing industries expanded and a number of new ones were established during the 1930s. (For details, see Part Three.) The low profitability of agricultural investments also helped to shift domestic capital to manufacturing, and industrialization might have been initiated even without the protectionist measures. With the relative fall in agricultural prices, particularly for cotton, Egypt's natural advantages shifted somewhat in favor of manufacturing industry.[9] It has been held that the protectionist measures helped greatly to establish domestic monopolies,[10] and this aspect of protectionism may well have been equally important in the promotion of new industries.

A further impetus to industrialization came with the outbreak of World War II. When Italy entered the war, Egypt was largely cut off from foreign supplies. The combined domestic civilian and Allied military demand led to the emergence of new industries, partly in repair and metal manufacturing, partly in areas based on hitherto ignored domestic raw materials.

The protectionist policies of the 1930s were continued after the war when, for example, the production of nitrogenous fertilizers was taken up and the textile industry expanded vigorously. The general ad valorem duty was raised to 7 percent beginning with 1946, but was lowered again to 3 percent in 1950. Duties on capital goods were lowered.

During the war an elaborate system of direct controls had been set up by both Allied and national authorities for distributing food and scarce raw materials and for regulating prices. This control system was never fully dismantled after the war as commodity and foreign exchange shortages continued to make themselves felt. During a brief spell of liberalization at the time of the Korean boom it was substantially limited, but during the ensuing recession direct controls once again gained in importance and subsequently became the main instruments of Egyptian economic policy.

THE ECONOMIC POLICIES OF THE NASSER REGIME

Using the plural form for the word policy in the title to this section is intentional. The economic policy of the Nasser regime changed radically during its first decade in response to external pressures and internal ideological developments in a way that has never been satisfactorily explored.[11]

The Organization of Free Officers that took power in 1952 was a heterogeneous group of mainly young people with political views ranging from the extreme left to the extreme right. It had no precisely formulated, detailed economic program apart from the land reforms that were implemented almost instantaneously. The latter had the character of political and social rather than economic reforms, and were undertaken for reasons of social justice with a view to redistributing wealth and income. Social justice was probably the single economic idea that the members of the Organization of Free Officers had in common and that clearly distinguished its policy from that of the old regime. With all the imperfections of Egyptian economic policies, it remained a leading principle of the government's political philosophy until recently.

In its general economic policy the new regime did little more than continue that of the old regime until the nationalization of the Suez Canal. The

Free Officers took power after the end of the Korean boom and the collapse of the cotton markets, and fiscal and monetary as well as foreign exchange policies were cautiously tight during the first year or two. In fact, the new regime did not really take over general government until 1954, and in the interim it was the old style politicians who ran economic policy. El Kaisouni, who represented modern economic thinking in the Nasser regime, was appointed Minister of the Treasury in 1954; later he became, in addition, Minister of the Economy and Minister of Planning. Controls over foreign exchange were tightened in 1953, but did not go beyond those found in both European and underdeveloped countries at that time. Defense expenditures had been substantially expanded by the old regime after the establishment of the Jewish state in Palestine, but were not increased further (as a percentage of GNP) by the new regime until the Yemen war in 1962. The old regime had embarked upon a public investment program that, by any standard, was quite impressive. Little was done immediately to expand this program further. The new regime relied basically upon private initiative in investment and production, and sought to promote private investment by protectionism, tax incentives, and other conventional measures. Private enterprise was slow to respond, however. Quite apart from the general recession in the Egyptian economy from 1952 to 1954, both the land reforms and the new regime's rather erratic sequestrations of private property served to create an atmosphere of uncertainty that was not conducive to private investment activities and tended to divert such activities to inconspicuous fields.

In the area of foreign trade and exchange, the major change—before the events surrounding the Suez War in 1956 upset Egyptian trade completely—had already taken place back in 1947, when the old regime decided to leave the Sterling Area and shift trade away from Britain. Bilateral trade was initiated by the old regime but expanded rapidly during the first years of the new regime, particularly with communist countries. In the beginning the expansion of trade with these countries had few ideological overtones: it was merely another opportunity to expand the markets for Egyptian cotton and textiles and thus expand trade in general. Nevertheless, it was trade with the communist countries that, among other things, initiated the radical changes in economic policy that were soon to follow.

This is not the place to discuss the diplomatic and not-so-diplomatic events that led up to and followed the Egyptian-Czechoslovak arms deal of 1955, the peculiar behavior of the United States in relation to the scheduled Aswan High Dam loan from the World Bank, the nationalization of the Suez Canal, the British-French-Israeli aggression and the Suez War, the accompanying foreign exchange and trade blockade by the United States, Britain, and France, and the subsequent shift of Egyptian trade from West to East.[12] This chain of events is of great interest in the present context, however, not only because it changed Egyptian economic policy so fundamentally but also because it poses some challenging problems for the conventional pure theory of optimal trade. When a decision to make purchases (of weapons, in this instance) in one half of the world creates trade and aid obstacles (and even prompts war) from the other half, analysis ceteris paribus with respect to conditions of trade becomes rather uninteresting in itself. Ceteris paribus analysis has, of course, still a role to play. The economic gain or loss from a particular trade or exchange policy measure can be set against the gain or loss from any retaliatory move; and ex post facto, the net gain or loss can be calculated (assuming, of course, that the utility of all measures, including the purchase of weapons, can be expressed in economic terms and is known).[13] But for designing *future* policies such analyses are of little operational value. For here everything depends upon whether retaliation will take place and in what form. An Egyptian decision to purchase more weapons from the Soviet Union may be punished by the U.S. Congress through a ban on Egyptian cotton exports to the United States; this would lead to a shift of Egyptian exports away from the United States to other countries, implying an extra cost for the weapons deal. But the punishment might also take the form of stepped-up military deliveries to Yemen royalists or to Israel, which, in turn, would increase the shadow price of weapons in Egypt and act as an incentive for a further expansion of weapons imports and commodity exports.

This kind of mechanism has played a major role in the development of Egyptian foreign trade policies and patterns since 1956. In the nature of the case, the pure theory of foreign trade has little advice to give about optimal trade strategies under such circumstances.

At the outbreak of the Suez War, Egypt immediately confiscated all property belonging to British and French subjects and nationalized all British and French companies (concentrated mainly in banking, finance, and trade). These steps were in a sense a natural and predictable consequence of the war. What was less predictable is that the events were also followed by a change in the attitude of the regime to *domestic* private business.

The war seems to have convinced the government that, if Egypt was to be able to defend herself, economic development was imperative. The new regime had, it is true, favored development in general terms all along and plans for the Aswan High Dam were a cornerstone of Nasser's developmental thinking. But it was not until after the Suez War that the new regime seriously embarked upon a development policy. Industrial and agricultural investment plans were drawn up in 1957 with emphasis on public investment. The (private) Federation of Industry was not even consulted on the plans and, when disagreement arose about the direction of private investment, nationalization of the big Misr Bank followed in 1960. A comprehensive five-year plan for the first half of the 1960s assumed that virtually all investment should be public. In July 1961 a series of decrees suddenly nationalized all large-scale industry, finance, and trade.[14] Further nationalization decrees, together with an extension of the land reforms, followed in 1963, and a national charter declared Arab socialism to be the basis of the economic system and the economic policy of the country. It should be added that sequestrations (based on presidential decrees) continued erratically (from an economic point of view, at least) to bring private property under public administration.[15]

All these changes added up to the establishment of a new economic system in Egypt. It is not clear, however, what the logic of this new system was. Behind the sweeping changes there was no carefully elaborated, coherent economic and social philosophy. The ideologists of the regime largely limited themselves to ex post comments on whatever decisions had actually been made, and such comment seldom went beyond simplistic rhetoric. Nasser's own speeches—long though they were—were not very illuminating, either. It is not always clear whether changes in the system were ends in themselves, undertaken to satisfy certain ideological requirements, or whether they were used as means, necessary to fulfill the basic aims of the regime: social justice, with its implications for distribution of wealth, income, and opportunity (including employment), economic growth, and (at least from the time of the Yemen war) what can be called military grandeur.[16] Nor should expediency, as well as the erratic responses of a highly impulsive and often badly informed ruler to short-term problems,[17] be ruled out as explanations.[18]

THE NEW ECONOMIC SYSTEM

The following pages outline the major characteristics of the present economic system as it was created at the beginning of the sixties and briefly indicate some major implications for the targets of the regime and for the foreign trade and exchange problems analyzed in detail later in our study.

The present system derives its socialist character mainly from the fact that all big business is in the hands of the government, which has taken over existing businesses and founded new ones. Since little, if any, compensation has been paid for existing enterprises taken over by the government, the change in ownership of big business has been accompanied by the disappearance of the upper tail of the wealth and income distribution. The land reform has worked in the same direction, although it has not directly expanded government ownership of the means of production; with the exception of the royal family, compensation should have been paid to the old owners according to the law, but as a matter of fact nobody has ever received compensation.[19]

There is no legal limit to the size of private enterprises, and such enterprises can be established in principle in almost any field. However, the government would presumably not let any private business grow big without nationalizing it sooner or later, and, of course, this presumption exerts a strong brake on private initiative. It would probably be difficult, if not impossible, to find private enterprises today with more than one hundred employees; the vast majority have a few employees at most. Strangely enough, in urban real estate it is still possible to find big private capitalists. While the regime is not hostile in principle to small-scale private business, it has explicitly favored the idea of cooperative organization as the desirable form of private small-scale enterprise. However, apart from a network of government retail stores named "cooperatives," little has been achieved in the direction of cooperative operations outside agriculture.

Government versus private economic activity by sector is divided as follows: modern manufacturing, mining, electricity and other public utilities, construction, transport and communication, finance, and wholesale trade (including almost all foreign trade) are, by and large, government-owned, while most retail trade, handicrafts and repair, housing, professional services of all kinds, and agriculture are privately owned and operated. Furthermore, the government imposes some control even upon agricultural production through its control over the irrigation system and the compulsory participation of all cultivators in the government-sponsored agricultural cooperatives. About half of the gross domestic product is produced by the public sector.

Government controls may also be classified by expenditure categories. *Private consumption* is largely free in the sense that only a few necessities are rationed, and even those may usually be purchased without controls at higher prices. However, the consumer is, of course, limited in his choice by the available supplies, which, to a large extent, depend directly upon government decisions in production and trade. Consumer credits were given generously until around 1964–65 for purchases of domestically produced consumer durables, but have been difficult to obtain since then. *Public consumption* is determined through traditional budgetary procedures, with large-scale weapons purchases negotiated directly by the president. Investments are public up to 90 percent. Decisions about *public investments* are taken by the ministries within limits set by the government. When a ministry has decided upon an investment within its allocation it will generally give a green light to financing and importation of investment goods. Some large public investments, partly financed from abroad, are decided upon directly by the government in negotiations with foreign donors or lenders. No general criteria for public investments seem to have been laid down. *Private investment* activities are very limited and in most cases conditioned by building or import licenses. Private fixed investment consists mainly in residential building. *Exports and imports,* finally, are almost exclusively a public activity.

The government exercises wide control over the distribution of capital goods, raw materials, and semimanufactures as well as over prices and wages. Historically, most of these controls have had nothing to do with the public ownership of larger enterprises. Both import licensing and price controls (including agricultural support price schemes and the like) grew up during the forties and the fifties, and enterprises have remained subject to such controls even after nationalization. In this regard the present Egyptian economic system resembles the Western European control economies of the late forties more than the current communist economies (including Yugoslavia's). Now the controls seem to have become part and parcel of Arab socialism, but they were originally introduced in Egypt for much the same reasons as earlier in Western Europe: if everything had been left to market forces, shortages of foreign exchange and commodities would have led to strong shifts in relative prices and income distribution, incompatible with prevailing views on social justice. There is a difference, however—whereas Western Europe rapidly overcame the shortages and was able to abolish commodity and price controls as well as foreign exchange controls in the first half of the fifties, Egypt has become more and more deeply entangled in her own web of controls. A decisive factor here is certainly that the administrative feasibility of solutions to problems of social justice through taxes and transfers is much more limited in Egypt than in Western Europe, regardless of the fact that the Nasser regime's commitment to social justice targets may have been no less sincere than that of most Northwestern European governments.

It has already been emphasized that both public and private enterprises are, in principle, constrained by administrative controls. This circumstance does not mean, of course, that public and private enterprises are, in fact, treated equally by the controlling authorities, or that they respond to changing conditions in the same way. Price controls are most effective with respect to public enterprises, which, on the other hand, are clearly favored in the distribution of scarce capital goods, spare parts, and raw materials. Apart from public utilities, public enterprises are in most cases organized as joint-stock companies, with the government as the sole or major shareholder. Decisions on current management, in theory at least, are left to the board of directors and the general manager. Thus, public enterprises in both production and trade could, if so ordered, behave like profit-maximizing private enterprises (given the constraints of administrative price and commodity controls). However, no general directives seem to have been issued for their management; as a matter of fact, there is considerable direct interference with production decisions from the ministries under whose jurisdiction the enterprises operate. There is also some participation in management by the workers, but its main impact seems to have been to create difficulties in enforcing discipline on the shop floor. It is thus exceedingly difficult to generalize about the behavior and responses of public enterprises. One thing is abundantly clear—they do not behave just like profit-maximizing private enterprises.

From this description of the system it is evident that—disregarding black markets—there is relatively little direct, automatic price response to changes in demand and supply conditions. Some agricultural goods enjoy free price formation, and the same is true of most products and services in the area of handicrafts, repair shops, professionals, and so forth. But all major commodity prices are fixed by the government, which also sets wholesale and retail profit margins. Even factor prices are widely controlled. Rentals (but not prices) of agricultural land and urban buildings, as well as interest on loans from all financial institutions, are fixed at low levels. Wages in public enterprises are paid according to a scale set by the government. Statutory minimum wages for both urban and rural workers exist but are enforced only for larger enterprises and public works, and not at all in agriculture. Trade unions are government-controlled and have little impact on wages.

Moreover, with some 40 percent of domestic expenditures for final use, as well as imports and exports, administratively controlled by the government, and about half of the production of goods and services for final use taking place in the public sector—together with some direct government interference in private production—it follows that automatic responses of quantities in demand and supply are, by and large, limited to private consumption and small-scale production (partly including agriculture, to be sure). Thus, market forces have been largely replaced by administrative decisions, although all this does not amount to a centralized command economy of the communist type but resembles, rather, (as already mentioned) the controlled economies of Western Europe during the years immediately following World War II.

Insofar as the 1960s are concerned, it is therefore obvious that we cannot apply uncritically the standard competitive foreign trade models to Egypt and assume that balance of payments measures will have the standard effects upon the balance of payments and the domestic economy. The same is partly true for the second half of the 1950s. With foreign trade and payments entirely in the hands of the government, there is no such thing as an automatic balance of payments response. Effects on the domestic economy through price responses will make themselves felt mainly to the degree that the government deliberately chooses to change domestic prices; indeed, to a large extent, both domestic prices and quantities supplied must simply be considered as policy instruments. In such an economy a devaluation, to take an important example, will only work to the extent that the government takes complementary measures in regard to prices and quantities—measures which could be taken without a formal devaluation.

NATIONAL PRODUCTION AND EXPENDITURES, 1947 TO 1969–70[20]

To highlight the structure of the Egyptian economy and its development since World War II, Tables 1–1 and 1–2 show gross domestic product—

TABLE 1–1

Gross Domestic Product: Growth Rate and Sectoral Origin, 1947 to 1968–69

	1947	1952	1956–57	1963–64	1966–67	1968–69
GDP, at 1959–60 market prices (mill. £E)	764	983	1,074	1,606	1,765	1,813
GDP, annual growth rate (percent compounded)		5.2	2.0	5.9	3.2	1.4
Share in GDP (percent)						
Agriculture	38	33	30	27	28	29
Industry, mining, electricity	13	13	16	24	22	23
Construction	3	3	3	5	4	5
Transport and communication	6	7	6	9	10	5
Trade and finance	19	19	16	9	9	9
Housing	7	7	6	5	4	4
Other services, including government and public utilities	14	17	22	21	23	25
Total	100	100	100	100	100	100

NOTE: The GDP figures were spliced together from three different estimates. The official data for the sixties had to be corrected for some obvious mistakes in the construction (1963–64) and housing (1968–69) sectors. As far as sector distribution is concerned, 1947 should be fully comparable to 1952, and 1963–64, to 1968–69. 1956–57 is roughly comparable to 1947 and 1952, but only to some extent to 1963–64 and later years. The sharp decline in the share of trade and finance between 1956–57 and 1963–64 and the corresponding increase in the share of industry, mining, and electricity are largely definitional.

SOURCES: 1947, 1952, and 1956–57: B. Hansen and G. A. Marzouk, *Development and Economic Policy in the U.A.R. (Egypt)*, Amsterdam, 1965, Statistical Appendix.

1963–64: B. Hansen, "Planning and Economic Growth in the U.A.R., 1960–65," in P. V. Vatikiotis, ed., *Egypt since the Revolution*, London, 1968.

1966–67 and 1968–69: Central Agency for General Mobilization and Statistics (CAGMS) and Ministry of Planning, Cairo.

GDP—by origin and expenditure categories in years that demarcate the beginning or end of periods particularly interesting from an economic policy point of view.

The 1947–1952 period was one of rapid postwar recovery at a growth rate of about 5 percent per annum. It ended with the Korean boom and is the only period marked by attempts to liberalize foreign trade and payments. Since then the tendency has been, instead, toward more direct control over the foreign sector.

During the period from 1952 to 1955 there was a relative slack in the economy, with only a growth of about 2 percent. These were the years when the new regime was still quite passive with regard to development and overly conservative in the area of fiscal and monetary policy, considering the very substantial gold and foreign exchange reserves.

After the Suez War of 1956 the government's development efforts increasingly dominated the economy, and both fiscal and monetary policies became inflationary. This period lasted until about 1964, when foreign exchange difficulties forced the government to cut back investments and generally pursue a less expansionary fiscal and monetary policy. The fiscal year 1963–64 marked the end of unhampered development efforts. The average growth rate for this period was almost 6 percent.

The following three years were characterized by severe foreign exchange shortages, relatively tight fiscal and monetary policies, and, it should be added, poor crops. The growth rate slowed down to an average of little more than 3 percent. With the June 1967 War, GDP fell, and, despite a subsequent recovery, the growth rate averaged only about 1½ percent during the three years ended June 1969.

Population may have been growing by somewhat less than 2 percent annually at the end of the forties. By 1960 the rate had increased to about 2.4 percent and by 1970 to 2.5 percent. The period 1947–1952 may thus have experienced an annual increase of per capita income of about 3 percent. From 1952 to 1955–56 per capita income probably fell slightly. During the development years, from 1956–57 to 1963–64, there was an annual increase of 3–3½ percent. Thereafter, per capita income first stagnated and then fell somewhat. From 1968–69 to 1971–72 it may have been increasing again by some 3–3¼ percent, but is now nearly stagnant.

The composition of national expenditure closely reflects the policies behind the development of the growth rate. During the nearly ten years between 1947 and 1956–57 the share of gross (fixed) investment remained low at a level of 12 to 13 percent. The share of public consumption increased by about 8 percentage points (partly for defense) over the period, while that of private consumption seems to have dropped sharply—by about 10 percentage points. There was a minor decrease in the balance of payments deficit.

TABLE 1–2

Gross National Product and Gross Domestic Product: Distribution by Expenditure Category

(percent)

	1947	1952	1956–57	1963–64	1966–67	1969–70
Gross investments	12.0	11.5	13.4	19.2	15.5	13.0
Public consumption	7.5	12.8	15.6	21.3	19.7	25.4
Private consumption	83.7	79.8	73.8	66.1	65.8	65.8
Exports	n.a.	21.4	19.8	19.0	17.3	13.3
Imports	n.a.	−25.5	−22.6	−26.0	−18.2	−16.5
Foreign balance (exports−imports)	−3.3	−4.1	−2.8	−7.0	−0.9	−3.2
Adjustment	—	—	—	0.4	−0.1	−1.0
GDP at current market prices	100.0	100.0	100.0	100.0	100.0	100.0
Net factor income from abroad	n.a.	−1.2	0.1	−0.3	−0.9	−1.3
GNP at current market prices	n.a.	98.8	100.2	99.7	99.1	98.7

SOURCES: 1947, 1952, 1956–57: B. Hansen and G. A. Marzouk, *Development and Economic Policy in the U.A.R. (Egypt)*, Statistical Appendix; and *Economic Bulletin*, National Bank of Egypt, 1970.

1963–64 and thereafter: Central Agency for General Mobilization and Statistics (CAGMS) and Ministry of Planning, Cairo. The shares are calculated on the basis of current price estimates. The table may underestimate both the increase in the real share of public consumption and the fall in that of private consumption. Individual years are not fully comparable. Gross investment does not include stock changes, except for 1966–67 and 1969–70. In the latter year stock investments exceeded 2 per cent of GDP. Private consumption is estimated as a residual. Public consumption does not include military equipment received as grants, and probably includes payments but not deliveries of other foreign military equipment.

From 1956–57 to 1963–64 the share of fixed investments increased by 6 percentage points to about 19 percent. The share of public consumption increased by another 6 percentage points to 21 percent. These increases were offset (in real terms) by a continued steep decline in the share of private consumption of almost 8 percentage points and an increase in the foreign deficit of 4 percentage points.

The cutbacks in demand initiated in 1964 to curb inflation and improve the balance of payments did not affect the share of private consumption very much. The share of public consumption fell moderately, and that of investments, substantially. The June 1967 War further intensified the fall in the share of investments, while public consumption took a new strong jump to almost 25 percent of GDP and the foreign deficit temporarily increased. Private consumption kept its share almost unchanged despite the war.

Egypt thus ended the sixties devoting almost as low a share of GDP to investments as it had in 1947. But public consumption had more than tripled (to almost 25 percent), while that of private consumption had shrunk by one fourth (to about 65 percent). A largely unchanged payments deficit persisted.

Table 1–2 also brings out a decline in foreign trade relative to GDP. From 1952 to 1969–70 total exports of goods and services fell from 21.4 to 14.3 percent of GDP. Part of this fall is related to the closure of the Suez Canal. Canal revenues amounted to about 4 percent of GDP in 1966–67. Total payments for imports of goods and services (including payments for military equipment but excluding interest and dividend payments) remained at the very high level of about one quarter of GDP until 1963–64, after which the ratio was cut back to about 18 percent. (The balance of payments will be discussed in somewhat more detail in the following section.)

FOREIGN TRADE AND BALANCE OF PAYMENTS, 1947–1969

The Egyptian balance of payments has been persistently in the red since World War II (see Table 1–3). The cumulated current deficit from 1950 through 1967 amounted to £E993 million. It should be noted that deficits existed already before 1950, and that the cumulative figure does not include possible credits for military equipment outstanding at the end of 1967.

The deficits were financed mainly by first drawing on the large foreign exchange reserves accumulated during World War II to a total of £E364 million and then by loans to an amount of £E595 million (net). The reserves (net) of gold and foreign exchange were brought down to a minimum at the beginning of the 1960s (see Table 3–7), when the foreign debt began to build up rapidly. During the first half of the 1960s U.S. funds (U.S. PL

TABLE 1–3

Egypt's Balance of Payments, 1950–1967

(mill. £E)

	1950	1951	1952	1953	1954	1955	1956	1957	1958
Exports[a]	190.2	204.5	148.8	137.8	144.2	139.1	132.5	167.0	163.1
Imports[a]	−222.6	−243.4	−212.9	−166.7	−155.9	−193.9	−196.0	−218.6	−215.5
Balance of trade[a]	−32.4	−38.9	−64.1	−28.9	−11.7	−54.8	−63.5	−51.6	−52.4
Shipping, net[b]	−0.6	0.3	0.0	0.4	−0.2	−0.8	−0.3	−1.9	−2.1
Suez Canal dues	26.2	26.4	26.6	29.1	30.6	31.8	29.3	24.3	43.0
British army expenditures	13.0	14.7	5.8	9.0	5.6	4.8	—	—	—
Interest and dividends, net	−11.2	−12.5	−12.1	−11.1	−13.1	−9.8	−5.1	1.9	2.8
Government expenditure	−5.1	−6.3	−5.7	−6.6	−9.4	−11.0	−12.9	−16.9	−21.7
Other, net	−3.9	1.1	−3.8	0.2	1.8	5.8	19.5	13.0	10.3
Balance on invisibles	18.4	23.7	10.7	21.0	15.3	20.8	30.5	20.4	32.3
Balance on current account	−14.0	−15.2	−53.4	−7.9	3.6	−34.0	−33.0	−31.2	−20.1
Loans, net[c]	−3.6	−4.6	−2.0	−0.4	−0.3	2.2	2.0	−0.1	1.5
Transfers[d]	—	—	—	—	—	—	—	—	—
Deterioration of:									
Foreign exchange and gold reserve	7.4	17.9	57.8	4.1	−6.9	32.3	33.3	33.1	15.7
IMF position	−3.0	—	—	—	—	—	5.2	5.2	—
Nonresident accounts	8.0	1.9	−1.8	4.5	3.8	−0.9	−7.0	−8.1	6.6
Errors and omissions	5.6	—	−0.6	−0.3	−0.2	0.4	−0.5	1.1	−3.7

TABLE 1–3 (concluded)

	1959	1960	1961	1962	1963	1964	1965	1966	1967
Exports[a]	167.3	203.7	164.9	145.2	228.8	227.6	246.8	259.5	258.7
Imports[a]	−237.6	−258.1	−241.4	−294.2	−402.6	−399.4	−413.3	−410.9	−413.2
Balance of trade[a]	−70.3	−54.4	−76.5	−149.0	−173.8	−171.8	−166.5	−151.4	−154.5
Shipping, net[b]	1.0	0.4	0.2	3.6	0.7	0.0	2.7	−1.2	−1.8
Suez Canal dues	44.4	50.1	51.2	53.7	71.1	78.4	86.2	95.3	47.0
British army expenditures	—	—	—	—	—	—	—	—	—
Interest and dividends, net	4.1	2.1	1.3	−2.2	−4.8	−7.8	−7.1	−4.4	−9.0
Government expenditure	−27.9	−25.3	−30.9	−28.4	−28.3	−36.8	−35.5	−32.3	−29.0
Other, net	12.7	3.5	1.4	4.7	12.2	14.9	10.2	18.4	21.8
Balance on invisibles	34.3	30.8	23.2	31.4	50.9	48.7	56.5	75.8	29.0
Balance on current account	−36.0	−23.6	−53.3	−117.6	−122.9	−123.1	−110.0	−75.6	−125.5
Loans, net[c]	11.4	11.1	33.9	80.7	93.7	111.1	80.9	64.2	50.5
Transfers[d]	—	—	—	—	—	—	—	5.0	58.2
Deterioration of:									
Foreign exchange and gold reserve	16.8	27.4	23.4	16.8	1.9	9.1	41.4	28.6	3.8
IMF position	−0.9	6.2	−0.9	20.0	6.4	1.9	−3.7	−7.3	1.4
Nonresident accounts	6.9	−14.2	2.8	4.1	20.0	−2.3	−13.6	−7.4	16.3
Errors and omissions	1.8	−6.9	−5.9	−4.0	0.9	3.3	5.0	−7.5	−4.7

NOTE: Receipts are (+) and payments, (−).

SOURCE: *Economic Bulletin*, National Bank of Egypt, 1970.

a. Including transit trade.

b. Including insurance other than for exports and imports.

c. Includes civilian, but probably not military, credits, U.S. PL 480 counterpart funds as from 1959, IBRD loans, and compensations for nationalizations, the Aswan High Dam lake in Sudan, et cetera. Amorti ·ations on loans are deducted.

d. Includes compensation from Arab countries for loss of Suez Canal revenues. It might be more logical to include this in the current account item.

480 counterpart funds equal to £E131 million at the end of 1966) played an important role, but otherwise the loans have come mainly from communist countries. It was the abrogation of PL 480 in 1965 in combination with the exhaustion of foreign exchange reserves that brought the country's development efforts to a virtual halt already before the outbreak of war in June 1967.

The balance on commodity trade had shown substantial payments deficits during the 1950s, fluctuating between £E12 and £E70 million, and increased to a range of £E150 to £E170 million in the 1960s. Disregarding the Korean boom years of 1950–51, export performance has been rather poor throughout the postwar period. Even when measured from the recession years 1953 and 1954, and adjusting for a depreciation of the Egyptian pound by almost 25 percent in 1962, the value of exports rose by less than 50 percent up to 1967, or by 3 percent annually. The average rate of increase in the U.S. dollar value of world trade during the same period was, of course, much higher. Calculated in the same way, imports rose by almost 100 percent, or about 5½ percent annually, which is a modest increase, too, if compared to world trade.

Another way of presenting the trends in foreign trade is to measure exports and imports as percentages of GNP. This is done in Chart 1–1. From 1953, when the share of exports was about the same as before World War II—15 to 16 percent of GNP—we see a clear downward trend, perhaps flattening at the end, to a level of 12 percent in 1969. Imports first show a downward trend from 22 to 23 percent of GNP in 1951–52 to about 17 percent in 1961. This is followed by a strong upturn, with imports remaining at a very high level until 1968. In the years that followed imports were cut so drastically that in 1969 a trade surplus emerged for the first time since World War II.

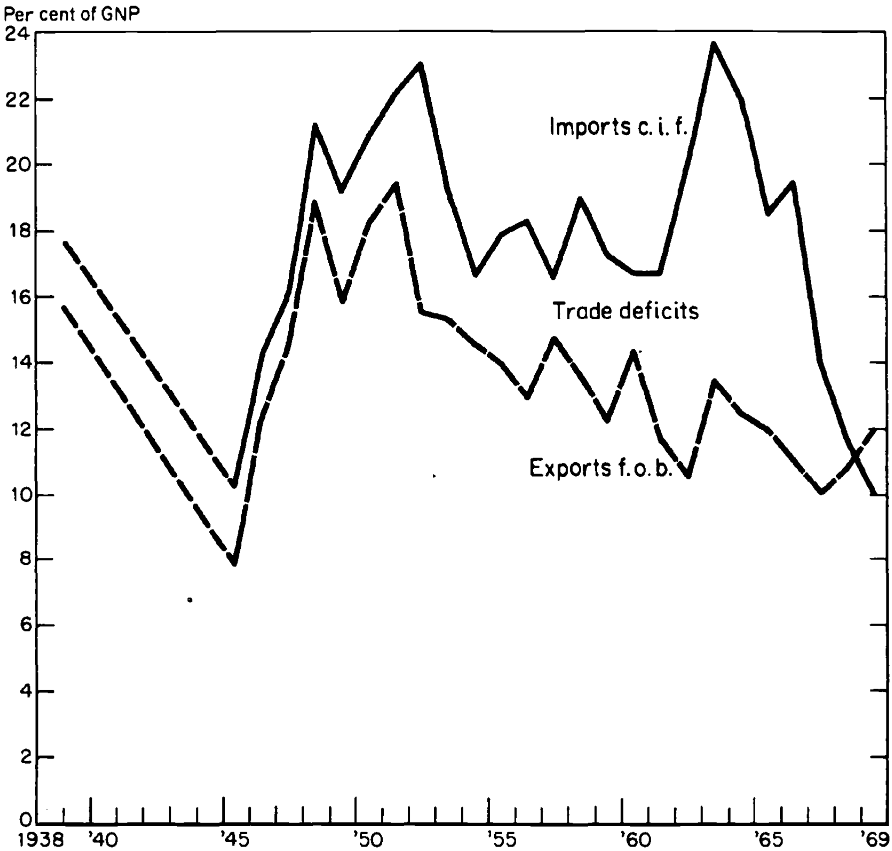
During the 1940s the trade deficit ran at a level of 1 percent of GNP, about the same as before the war. After the Korean boom it increased to a level of some 4 to 5 percent of GNP, where it remained until the beginning of the 1960s, when it increased further to some 6 to 10 percent of GNP until 1966.

A substantial part of the widening in the trade gap was covered by an increase in the Egyptian revenues from the Suez Canal. Considering the effects of the nationalization of the Canal, Egypt's[21] net foreign revenue from the Canal increased from about £E10 million in 1953 to £E95 million in 1966, or by about £E85 million. The trade payments deficit rose during the same period by about £E130 million. Increasing government expenditure abroad (mainly for military equipment),[22] however, added another £E25 million to the deficit's growth.

Thus, in the last year before the war of June 1967, the deficit on merchandise trade was £E151 million. Of this £E95 million was covered by

CHART 1-1

Exports and Imports as Percentages of GNP, 1938–39 to 1969–70



Suez Canal revenue, while other invisibles (net) contributed another £E13 milion, which together would have meant a current deficit of £E43 million. Government expenditure, however, increased the deficit to £E76 million, of which £E64 million was covered by longer-term loans (net) and the remainder by further drains on the reserves.

The composition of both exports and imports has changed substantially over time. Before World War II Egypt was largely a one-product exporter, raw cotton constituting about 9/10 of total exports, while imports consisted mainly of manufactured consumer goods, fuel, and some raw materials. On the export side (Table 1–4), the picture was still much the same in 1950, raw cotton accounting for 85 percent of total exports. During the next two decades

TABLE 1–4

Exports by Commodity Group, 1950–1968

Year	Raw Cotton	Rice	Fruits and Vegetables	Cotton Textiles	Other Exports	Total
			Value in Millions of Egyptian Pounds			
1950	149.8	7.6	2.3	4.0	11.7	175.4
1955	107.4	7.3	4.5	7.4	11.7	138.3
1960	134.7	9.8	9.5	18.9	18.7	191.6
1965	146.2	19.8	12.4	47.0	37.6	263.1
1968	121.1	44.9	11.5	52.4	40.4	270.3
1970	147.8	34.2	29.0	53.7	66.5	331.2
			Percentage Distribution			
1950	85.4	4.3	1.3	2.3	6.7	100.0
1955	77.7	5.3	3.2	5.4	8.4	100.0
1960	70.3	5.1	5.0	9.9	9.7	100.0
1965	55.6	7.5	4.7	17.9	14.3	100.0
1968	44.8	16.6	4.3	19.4	14.9	100.0
1970	44.7	10.3	8.8	16.2	20.1	100.0

SOURCE: *Economic Bulletin,* National Bank of Egypt, 1970.

its share fell to 45 percent, while that of cotton textiles (yarn and cloth) increased from 2 to 16 percent. In value terms the increase in cotton textile exports much more than compensated for the fall in raw cotton exports but, of course, the major part of the processed cotton served to satisfy the increasing domestic demand and entirely wiped out cotton textile imports. Rice became the third largest single export item, growing from 4 percent of total export value in 1950 to 17 percent in 1968, but falling again to 10 percent in 1970. Miscellaneous exports increased their share from 7 to 20 percent during the twenty-year period. These include small exports of a substantial number of manufactured goods (oil and fuel, cement, and footwear, in particular). Counting cotton textiles as two goods (yarn and cloth), as well as fruits and vegetables, Egypt thus developed from a one-commodity exporter in 1950 to a six-commodity exporter in the second half of the sixties.

On the import side (Table 1–5), the share of capital goods imports increased sharply from 1950 to 1955, subsequently remained almost constant at a level of 24 percent until 1968, and increased once more to 31 percent in 1970. The growth in the share of capital goods imports during 1950–1955 was largely compensated for by a decline in food imports, which, however, showed a strong and steady relative uptrend thereafter, reaching 32 percent in 1968. This increase was, in turn, compensated for by an almost equal fall

TABLE 1–5

Imports by Commodity Group, 1950–1968

Year	Food	Other Consumer Goods	Raw Materials	Capital Goods	Total
		Value in Millions of Egyptian Pounds			
1950	50.2	48.4	88.1	31.8	218.5
1955	25.0	37.4	78.8	45.2	186.4
1960	47.9	32.6	88.7	55.8	225.1
1965	110.2	45.3	155.0	95.4	405.9
1968	91.9	28.9	99.3	70.5	290.6
1970	72.6	32.4	129.5	107.5	342.0
		Percentage Distribution			
1950	23.0	22.2	40.3	14.6	100.0
1955	13.4	20.1	42.3	24.3	100.0
1960	21.3	14.5	39.4	24.8	100.0
1965	27.1	11.2	38.2	23.5	100.0
1968	31.6	9.9	34.2	24.3	100.0
1970	21.2	9.5	37.8	31.4	100.0

NOTE: Economic "aid" is not included. ("Aid" here probably means grants; thus, PL 480 aid, a loan, is included.) Military equipment is not included.

SOURCE: *Economic Bulletin,* National Bank of Egypt, 1970.

in the shares of other consumer goods and raw materials. This represents, to some extent, import substitution (cotton textiles, footwear, and fuel, for example), but for the rest became possible only through domestic commodity shortages (manufactured goods consumed by the middle and upper income brackets, materials used in handicrafts, and so forth). More recently the share of food imports shrank again, to 21 percent in 1970, as a result of the increase in agricultural production.[23]

Finally, Table 1–6 shows the development of trade with the communist countries ("Eastern Europe"). In 1950 such trade was insignificant, but in 1955—the year of the Czechoslovakian arms deal—exports increased substantially, with imports unchanged. This export surplus remained characteristic of the trade with communist countries throughout the following period. It has obviously served to cover payments for military equipment not included in the import figures: note that the surplus is of the same order of magnitude as the item "government expenditure" in the balance of payments (Table 1–3). By 1965 imports from these countries were about one quarter of total imports, while exports to them were about half of the total. In 1970, after the 1967 War, imports from the East Bloc reached one third of total imports,

TABLE 1–6
Egypt's Trade with Eastern Europe

	Imports		Exports		Trade Balance (mill. £E)	
Year	Mill. £E	% of Total	Mill. £E	% of Total	Eastern Europe	Total
1950	13.9	6.4	18.8	10.7	+4.9	−41.4
1955	13.1	7.0	30.1	20.6	+17.0	−41.2
1960	55.8	24.0	83.0	41.9	+27.2	−34.7
1965	92.0	22.7	129.1	49.5	+37.1	−142.6
1968	116.9	40.4	132.1	48.9	+15.2	−19.3
1970	114.8	33.5	201.3	60.7	+86.5	−10.9

SOURCE: *Economic Bulletin*, National Bank of Egypt, 1970. For coverage, see Note to Table 1–5.

while exports to that area increased to above 60 percent of the total, with a trade surplus of no less than £E86.5 million, obviously related to greatly increased payments for military equipment.

NOTES

1. For earlier developments, the basic reference is A. Crouchley, *The Economic Development of Egypt*, London, 1935. See also the articles in C. Issawi, *The Economic History of the Middle East, 1800–1914*, Chicago, 1966, Part VI; Z. Y. Hershlag, *Introduction to the Modern Economic History of the Middle East*, Leiden, 1964; and E. R. J. Owen, *Cotton and the Egyptian Economy, 1820–1914*, Oxford, 1969. For post-World War II developments, see C. Issawi, *Egypt at Mid-Century*, London, 1954, and *Egypt in Revolution*, London, 1963; B. Hansen and G. A. Marzouk, *Development and Economic Policy in the U.A.R. (Egypt)*, Amsterdam, 1965; D. C. Mead, *Growth and Structural Change in the Egyptian Economy*, Homewood, Ill., 1967; B. Hansen, "Economic Development in Egypt," in C. A. Cooper and S. S. Alexander, *Economic Development and Population in the Middle East*, New York, 1972.

2. H. A. B. Rivlin, *The Agricultural Policy of Muhammad 'Ali in Egypt*, Cambridge, Mass., 1961; C. Issawi, op. cit., 1966, pp. 390–402; and Z. Y. Hershlag, op. cit., 1964; Moustafa Fahmy, *La Révolution de l'industrie en Egypte et ses conséquences sociales au 19e siècle, 1800–1850*, Leiden, 1954.

3. Hershlag, op. cit., 1964, Part 4; and A. A. Mustafa, "The Breakdown of the Monopoly System in Egypt after 1840," in P. M. Holt, ed., *Political and Social Change in Modern Egypt*, London, 1968.

4. A. A. I. El-Gritly, *The Structure of Modern Industry in Egypt*, Cairo, 1948, Chapter 10; V. J. Puryear, *International Economics and Diplomacy in the Near East*, Stanford, 1935, pp. 117–125; "History of the Customs Regime in Egypt," *Annual Statement of Foreign Trade, 1933*, Cairo, 1935, pp. 5–13.

5. *Annuaire Statistique*, 1925–1926, pp. 383–384, Cairo, 1927.
6. A. El-Gritly, op. cit., 1948, and C. Issawi, op. cit., 1966, pp. 359–374.
7. This statement may need qualifications; see Chapter 8, p. 207.
8. A. El-Gritly, op. cit., 1948, Chapter 10.
9. Ibid., p. 376.
10. Ibid., Chapter 8.
11. P. O'Brien, in *The Revolution in Egypt's Economic System*, London, 1966, has so far given the best description of the economic policy changes from 1952 to 1962. A. Nutting's *Nasser*, London, 1972, contains interesting additional information about the process of change.
12. A. Nutting, op. cit., Chapters 5 to 10, gives a detailed account of the politics behind these developments.
13. Weapons are difficult to include in economic analysis not only because of the secretiveness with which they are surrounded and because no world market exists with market prices for heavy weapons, but also because they are part of public consumption and thus give rise to the problems in modern welfare theory related to the existence of public goods.
14. Nutting, in "The Socialist State," op. cit., Chapter 15, gives a very different account of these events, in particular the relations to the Misr concern. However, he got the chronology of events wrong. His main point—that Nasser should have suspected the Misr group of a conspiracy to destroy the union with Syria and that the nationalizations were a punishment for this conspiracy—makes little sense. The breach with Syria occurred only in September 1961, while the big nationalization sweep took place in July 1961 and the Misr concern was placed under control as early as February 1960, when Bank Misr was nationalized. Nutting seems to believe that the Misr concern was nationalized after the breach (see pp. 295–300). It is quite another thing that a wave of sequestrations did, in fact, follow after September 1961.
15. A reversal of the sequestrations was promised by President Sadat, but it is not clear how much property has actually been returned to its old owners.
16. Maxime Rodinson, in *Israel and the Arabs*, New York, 1968, suggests that *grandeur* was, in fact, Nasser's main concern from the very beginning, and that his economic development policies have to be seen as a means to this end. But most observers agree that his concern with social justice and improvement of the standard of living of the broad masses was genuine and always pervaded his thinking (see, for instance, Anwar Abdel Malek, *Egypt: Military Society*, New York, 1968; and, particularly, Anthony Nutting in his 1972 book cited in footnote 11).
17. Thus, it has been maintained that the nationalizations in 1963 were largely undertaken to create retirement positions for officers dissatisfied with the Yemen War.
18. For a more general discussion of the motivations for the changes in the system, see the somewhat diverging views in O'Brien (see footnote 11), and Hansen (see footnote 1), pp. 72–78. But these are views of economists and may not be very relevant for the political issues. Nutting, who probably knew Nasser personally better than anybody else, gives the impression that the whole thing for Nasser was a power game. To "protect the revolution," powerful private capitalists could not be allowed to exist, and this was something that apparently Nasser should have felt right from the beginning. The nationalizations thus became the instrument for the ultimate consolidation of both the revolution and Nasser's personal power. (See Nutting, op. cit., Chapters 3 and 15.)
19. This is a fine point that has escaped most authors who write about the consequences of the Egyptian land reforms.
20. Throughout this volume the notation 1963–64 refers to fiscal year July 1 to

June 30, unless otherwise indicated. As of 1960, Egyptian statistics are increasingly presented on a fiscal year basis. This is, unfortunately, an inconvenience that we can do nothing about. The reader should note that in some connections the agricultural year (November–October) or the cotton year (September–August) is used.

21. The major part of the Canal dues before nationalization accrued to the foreign-owned Canal Company.

22. Military equipment has been obtained from the communist countries as grants, against cash payment, and with loans. The total and its distribution among these three classes are not known. Only payments (at delivery or deferred) appear in the balance of payments, and they are classified as current payments, lumped together with expenditure for representation abroad, students' scholarships, support of revolutions, and other government payments.

23. For the first time since World War II, in 1970 Egypt was again a net food exporter by £E26 million.