UNIVERSITY OF STRATHCLYDE
DEPARTMENT OF MARKETING

FOREIGN DIRECT INVESTMENT IN DEVELOPING COUNTRIES: AN ANALYSIS OF THE DETERMINANTS, IMPACT, POLICIES AND ORGANISATION WITH SPECIFIC REFERENCE TO THE CASE OF EGYPT

VOL. II

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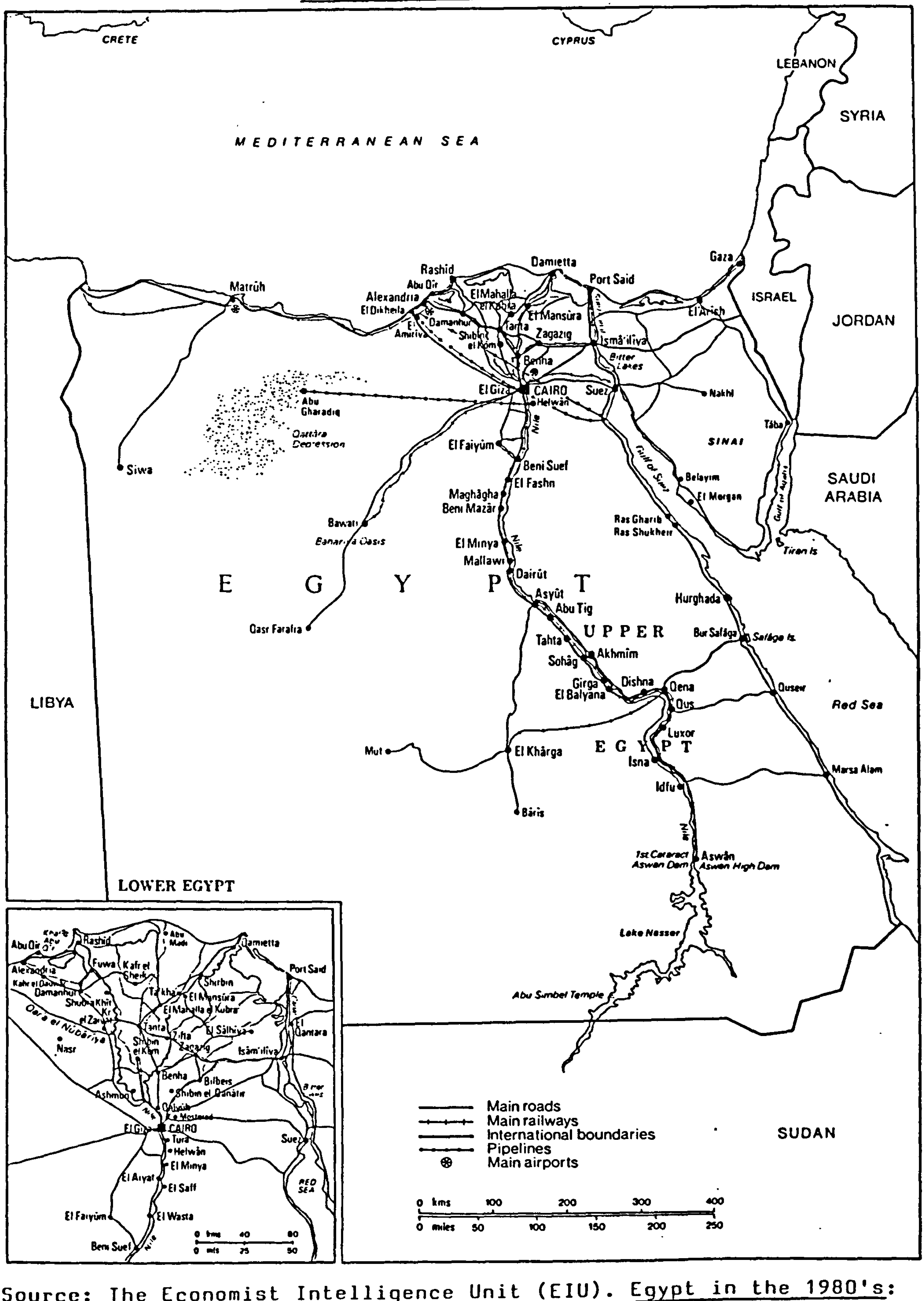
Section C

FDI IN EGYPT

AN ANALYSIS OF THE ENVIRONMENT FLOWS - IMPACT AND POLICIES

MAP (C-1) - Egypt



Source: The Economist Intelligence Unit (EIU). Egypt in the 1980's: The Challenge, London, 1983, Report No. 158, prepared by C. Daniels, p.9.

Highlights for Section (C)

The purpose of this section is three-fold; first, to review the existing characteristics of the Egyptian economy and associated problems applying MNCs which operate in Egypt; second, to underline/investigate the FDI flows and its impact on the Egyptian economy; third, to analyse the prevailing FDI policy stances and practices in Egypt since 1974.

Thus, the current section is divided into three chapters:-

Chapter (1) : Characteristics of the Egyptian Economy.

Chapter (2) : FDI in Egypt: Flows and Impacts.

Chapter (3) : The Egyptian FDI policy : organisation and Implementation.

CHAPTER (1)

CHARACTERISTICS OF THE EGYPTIAN ECONOMY

Introduction

The salient characteristics of developing countries as generally carried on along well-known economic and socio-political dimensions - trade, investment, technology, needs, growth and so forth have been pointed out in Chapter (1), Section (B). A summarised conclusion has also been presented. This conclusion was that lack of development in developing countries - compared with the developed ones - is reflected in e.g. low incomes, illiteracy, inefficient industry and other economic activities, inadequate infra-structures, etc. Examples of problems associated with these deficiencies as applied to MNCs which operate in these countries have also been outlined previously.

Since Egypt is typical of many developing countries and can usefully be employed as an example, the perspective of this chapter is to indicate - in more detail - the main features of Egypt's environment and problems associated with the specific interests of MNCs/foreign investors.

In this connection, the following discussion focuses upon selected environmental characteristics e.g. economic conditions and the political and socio-cultural situation in Egypt. This in turn may be of help in exploring the problems most likely to be related to these characteristics. Thus,the present chapter is organized under the following headings:

1.1 Economic characteristics.

1.2 The political characteristics.

1.3 The socio-cultural characteristics.

1.4 The critical features of the Egyptian Economy:Summary.

1.1 The Economic Characteristics ·

On previous occasions, it has been argued that the MNCs are probably concerned with many of the host country's specific factors (in e.g. marketing, economics, etc.) when assessing opportunity potential in the overseas markets. More specifically, a host country's existing market size, industrial structure/activities, labour availability and costs, and so forth are among the locational factors which may influence the FDI decision. Arguably, the more likely the country is to have a large market, trained and abundant labour force and other support facilities for instance, the more attractive the country would be for locating the MNCs investment.

However, among the factors in the economic-marketing environment that may enter into account when assessing the Egyptian market's viability to FDI in general are arguably the following:

(1) Kind of economic activities and production structure

As mentioned before, a MNC whose markets or activities lie in the manufacturing sector, for example, may need to compare the trends of this sector in relation to other sectors in a given host country. Such comparison or analysis will probably provide indications in terms of the potential opportunities for the MNCs concerned in an overseas market. To some extent, the analysis of a country's sectoral activities shares in relation to its GNP/GDP may arguably provide a tentative indication of the level of development, availability of skilled manpower etc. in that country.

As to the Egyptian situation, Tables (1) and (2) in appendix no. (A) concerning the output of selected industrial products and sectoral percentage shares of economic activities in relation to GDP during the 1940s and 1970s, in addition to the following tables (C-1), (C-2) and (C-3) as supplemented by other sources of information demonstrate that:

a) Agricultural production is still one of the most important activities of the Egyptian economy. In spite of that, a combination of factors has led to the development of a significant imbalance between food consumption and agricultural production over the last decade (population growth has been rapid, people have had more money to spend on food, land supply, etc.). Thus, Egypt is importing half of its food requirements, and the proportion is still rising, e.g. the imports of wheat began in the early 1970s and in 1982 accounted for about 75% of domestic consumption[(1),(2)]. Therefore, a number of measures are underway to develop the agricultural sector. The objective of the agricultural plan is to increase the agricultural area and crops through employing the most modern agricultural methods and equipment, establishing new drainage projects, encouraging fish

Table (C-1) Gross Domestic Products (GDP) distributed by sectors 1977-1981/82.

(L.E.mn.)	1977	1978	1979	1980/81	1981/82 (Plan)
Commodity sectors	4090	4869	6941	9048.4	10001.1
Agriculture	2038	2286	2530	3262 0	3390 1
Industry and mining	1120	1319	1650	1954.5	2232 0
Petroleum	468	626	1908	2922.4	3342 6
Electricity and public Utilities	106	121	132	169.5	186 4
Construction	358	517	721	740 0	850 0
Distribution sectors	1672	2233	2966	3889.6	4368.0
Transportation, comm. and storage	322	395	483	571.4	636 2
Suez Canal	169	294	416	592.8	772.7
Trade, finance and insurance	1181	1544	2067	2725.4	2959.1
Service sectors	1641	1911	2161	2870.3	3574.3
Housing	244	262	287	297.6	338 7
Other services	1397	1649	1874	2572.7	3235 6
GDP at factor cost	7403	9013	12068	15808.3	1793.4
Net indirect taxes	810	774	542	815.5	088 0
GDP at market prices	8213	9786	12610	16623.8	19031.4

Source: Ministry of Planning, Cairo, 1982.

Table (C-2) The GNP realised in Egypt during 1982/83.

(Value in LE million)

SECTOR OF ECONOMY	81/82	82/83 1ST ESTIMATE	AVERAGE% DEVELOPMENT 82/83,81/82	%in the total G.N.P 81/82	82/83
Agriculture	3782.2	3886.0	2.7	19.3	18.4
Industry & Mining	2662.8	2922.0	9.7	13.6	13.9
Oil & Products	2998.9	3321.5	10.8	15.5	15.8
Electricity	121.3	133.7	10.2	0.6	0.6
Building & Construction	930.0	1041.5	12.0	4.7	4.9
TOTAL COMMODITY SECTOR	10495.2	11304.7	7.7	53.5	53.6
Transport, Storage & Communication	950.0	1025.0	7.9	4.8	4.9
Suez Canal	632.0	668.0	5.7	3.2	3.2
Commerce	2448.0	2582.6	5.5	12.5	12.2
Finance	1276.0	1335.5	4.7	6.5	6.3
Insurance	51.0	53.4	4.7	0.3	0.3
Restaurant—Hotels	230.5	242.8	5.7	1.8	1.1
Total productive services	5587.5	5907.3	5.7	28.5	28.0
Property ownership	359.9	404.8	12.5	1.9	1.9
Public utilities	38.2	42.5	11.3	0.2	0.2
Social & Private Services	810.0	867.0	7.0	4.1	4.1
Social Insurance	20.0	21.2	6.0	0.1	0.1
Government Services	2300.7	2557.2	11.1	11.7	12.1
Total Social Services Sectors	3528.8	3892.7	10.3	18.0	18.4
Grand Total	19611.5	21104.7	7.6	100.0	100.0

Source: Ibid., in Egyptian-British Chamber of Commerce (EBCC), The Journal of the Egyptian-British Chamber of Commerce, London, September 1983, p.17.

farming, and livestock and poultry (either by foreign participation or local public and private industry, and individual enterpreneurs)[3],[4].

b) The industrial production. In order of importance the industrial production (textiles, food processing, petroleum, minerals, etc.) followed the agricultural ones. In this regard, it may be important to establish the following relevant points:[5],[6],[7]

(1) The industrial output including petroleum has been growing rapidly, contributing over 30% of GDP, (over the last five years, the real annual growth rate of petroleum averaged 12.8%).

(2) The chemical industry has diversifeid considerably during the last five years. Egypt's pharmaceutical industry has also been developed (approximately 85% of Egypt's pharmaceutical needs are now produced domestically).

(3) Motor vehicles production is lagging behind the market's need or demand. But while the automotive fleet is relatively small, with a total population of just over 650,000 vehicles in 1981, it is growing fast and is anticipated to exceed one million vehicles by 1987.

(4) The country's industrial and consumer-oriented electrical industry is growing rapidly, particularly as the government is trying to limit the imports of consumer durable products.

c) The figures concerning GNP produced during 1982/83 (table C-2) reflect development in all sectors of the socio-economic plan(*). The Egyptian GNP has witnessed during 1982/83 a development of 7.6% over the previous year.

d) A comparison of the 1983/84 figures with those for 1984/85 (planned provided in table (C-3) shows that the contribution of the industrial, construction, electricity, communications sector, etc. to the GNP is increasing, while the agricultural sector, oil, commerce, etc. are decreasing.

e) In general, the agriculture sector compared with other economic activities still constitute the greater share of Egypt's GNP, despite the decrease in its share planned for 1984/85.

As far as a MNC is concerned, it may be useful to note that most of the industrial sites in Egypt are concentrated in the Nile Valley, Delta, Suez and Sinai areas.

According to the argument which has been put forward (in Chapter 1, Section B) problems affecting MNCs which manufacture in Egypt may arise as a result of the above characteristics . It is possible that the dominance of agricultural activities may have an adverse bearing on the availability of the skilled labour force required. This in turn may mean that the MNCs will have to train local workers or pay higher wages for the professional or skilled manpower required. Therefore MNCs production costs may become less competitive.

(*) The socio-economic plan will be considered in some detail later.

Table (C-3)

GNP at Factor Cost, Constant (1981/82 prices) Values in LE millions.

Sector	1983/84 Actual	%	1984/85 Planned	%	Rate of Growth
Agriculture	3965	17.9	4115	17.3	3.8
Industry	3130	14.1	3468	14.6	10.8
Oil	3500	15.8	3715	15.6	6.1
Electricity	158	0.7	180	0.8	13.9
Building & Construction	1045	4.7	1190	5.0	13.9
Total Commodity Sector	**11798**	**53.2**	**12668**	**53.3**	**7.4**
Communications & Transport	1313	5.9	1424	6.0	8.4
Suez Canal	656	3.0	683	2.9	4.1
Commerce	2790	12.6	2975	12.5	6.6
Finance	1218	5.5	1282	5.4	5.3
Hotels & Restaurants	265	1.2	287	1.2	8.3
Total Productive Services Sectors	**6289**	**28.4**	**6702**	**28.2**	**6.6**
Real Estate	430	1.9	473	2.0	10.0
Public Utilities	64	0.3	72	0.3	12.5
Personal Services	892	4.0	970	4.1	8.7
Social Insurance	32	0.1	35	0.1	9.4
Government Services	2655	12.0	2865	12.0	7.9
Total Social Services Sectors	**4073**	**18.4**	**4415**	**18.5**	**8.4**
Total GNP	**22160**	**100.0**	**23785**	**100.0**	**7.3**

Source: EBCC, The Journal of Egyptian-British Chamber of Commerce, April, 1985, p. 18.

The potential market for most industrial products may also be affected because of the dominance of agricultural activities especially for MNCs whose operations are closely related to the industrial market(+). Additionally, for a MNC whose operations are located far from the main areas of industrial concentration, may pay higher costs for transportation and implementation of after sales service - if applicable - etc. taking into account the viability of the existing infrastructural facilities in a developing country like Egypt.

Nevertheless, it is possible that the Egyptian market may provide potential opportunities for the MNCs whose market lies in the agriculture sector. The availability of raw material, local suppliers, cheap labour, etc. makes the investment in agri-industrial investment for example more attractive. It seems likely as well that the lower competition in the industrial sector (associated with the desire of the Eygptian government to build up the industrial base) will provide profitable opportunities for the MNCs concerned regardless of the problems that were previously mentioned.

(+) In the case of domestically-oriented investment.

(2) Public and private sectors share in the GDP

Between 1960 and the mid-1970s, the public sector dominated an increasing number of productive enterprises, until it was responsible for approximately 75% of Egypt's GDP. The Open Door Policy (ODP) which started in 1974 has begun to change this percentage. For example, private industry, which now contributes 33% of the industrial production, is also expected to account for 25% of total investment under the new five year plan (1982-1987)[8]. As the growing importance of the private sector in Egypt is evident in table (C-4), it seems likely that the MNCs are open to bureaucratic problems when dealing particularly with the public sector companies. Also , a source of concern is continued government control and intervention in economic activities.

Table (C-4) Private sector investment in industry,1970 & 1981

(Value in £E Million)

	1970	1980/1981
Private Sector Investment	359	994
% of private sector compared with public sector	25%	34%

Source: Ministry of Information, Cairo, 1982.

(3) The Five Year Plan (1982/83 - 1986/87) and the role of private sector investment

The prime objectives of Egypt's five year plan can be summarised as follows:(9)

(1) Changing the structure of commodity production from an agricultural to an agro-industrial one, and paying particular attention to some industries like food processing, housing, etc.

(2) Ensuring the continuous and adequate supply of the various economic sectors with their needs.

(3) Establishing integrated industrial zones in different regions especially in desert and rural areas, comprising industrial centres, infrastructure facilities, and so forth.

(4) Optimum utilization of mineral resources with due attention to the Sinai peninsula.

(5) Developing and supplying the manufacturing industries which depend on local raw material.

(6) Strengthening and deepening the policy of the open door economy, concentrating mainly on the expansion of foreign partnership projects being considered, improving the means of innovating industry and reducing the deficit of balance of payments and foreign exchange.

(7) Giving priority to the private sector to participate in joint-venture projects, and sustaining an appropriate balance between the public and private sectors.

(8) Giving priority to institutions and organisations for the transfer of technology, and improving productivity by vocational training, higher education, the adoption of scientific practices and quality control.

(9) Rationalizing consumption and directing local savings to production and development.

(10)Finally, according to the new plan, investment is estimated during the plan's period at about LE 34.1 billion.

In January 1983, the plan was approved by the Egyptian parliament. The main features of the plan can be set out as follows:

A) Resources and Uses. If one looks at table (C-5), it is apparent that the major features of the resources and uses under the 1982/83 - 1986/87 plan are:(10)

(1) Developing the GNP at 1981/82 constant price by an average of 7.9% annually.

(2) Planning the annual final consumption at the rate of 5.7%, which means an average increase in private final consumption at the rate of 5.1% against an annual average increase in the government final consumption of 7.9%.

(3) An increase in exports of commodities and services at an annual rate of 9.2% while the annual rate of increase in imports is projected at 8.1%.

(4) Investments planned during the five year period are about £E 35,000 million.

(5) Total National Savings is planned to amount to 21.3% of the GNP, by 1986/87 against 12.3% in 1981/82.

(6) Table (C-5) The resources and total uses in 1986/87 plan compared with the same in 1981/82.

Value in LE Million

Resources	1981/82	1986/87	Annual Average Dev. %	% to the GNP at Market price 1981/82	% to the GNP at Market price 1986/87
Resources					
GNP at cost price	19,638.8	28,675	7.9	94.8	94.3
Indirect taxes	3,008.0	4,040	5.5	14.9	13.3
Less subsidies	2,000.0	2,300	2.8	9.7	7.6
GNP at market prices	20,726.8	30,415	8.0	100.0	100.0
Imports (commodities & services)	8,015.0	9,535	3.5	38.7	31.3
Total Resources	28,741.8	39,950	6.8	138.7	131.3
Uses					
Private final consumption	14,550.7	18,630	5.1	70.2	61.2
Government final consumption	3,630.5	5,320	7.9	17.5	17.5
Total Consumption	18,181.2	23,950	5.7	87.7	78.7
Fixed Assets	4,950.0	7,500	8.7	23.9	24.9
Increase in Stocks	200.0	100	-13.0	1.0	0.3
Total Capital Formation	5,5150.0	7,600	8.1	24.9	25.0
Exports (commodities & services)	5,410.6	8,400	9.2	26.1	27.6
Total Uses	28,741.8	39,950	6.8	138.7	131.3
Savings from GNP	2,545.6	6,465	20.5	12.3	21.3
Total national savings	3,120.0	7,100	17.9	15.1	23.3
Deficit in the current payments	2,030.0	500	-24.4	9.8	1.7

Source: EBCC, The Journal of the Egyptian-British Chamber of Commerce, May 1983, p. 4.

From the table (C-5) one may notice that Egypt's trade, both in exports and imports will be expanding and foreign trade will represent about 30% either on the sources or users sides.

B) <u>Sectoral Investment Allocations</u>. From the information table (C-6) and graph (C-1) one can notice the following:

1) It is planned to develop the public utilities at an annual average rate of 13.9% compared with 11.4% in 1981/82.

2) Oil production and products will be developed at an average annual rate of 13.3%.

3) Electricity is planned to develop at an annual rate of 10.7%, followed by industry and mining 9.8%, housing 9%, insurance 8%, and social insurance and government services 8%.

4) Agriculture which is expected to develop by 2.8% in 1982/83 compared with the previous year is planned to develop at an average annual rate of 3.5% during the period of the plan.

5) Building and construction industries are planned to develop at an annual rate of 7.3% during the same period, with communication, and transportation etc. at an annual average 5.3% excluding the Suez Canal the rate for which is 6.4%.

6) Trade and finance will develop at a rate of 6.7 and 6.9% respectively.

Table (C-6) The general frame of Egypt's five year plan 1982/83-1986/87

(Value in LE Million)

Sector	Planned 1982/83	%	Planned 1986/87	%	Average growth % 1982/83 / 1981/82	Average growth % 1986/87 / 1981/82
Agriculture	4,000.0	18.8	4,629.0	16.1	2.8	3.5
Mining and Industry	2,905.8	13.6	4,259.4	14.9	9.0	9.8
Oil and Products	3,547.6	16.6	5,508.9	19.2	20.5	13.3
Electricity	126.8	0.6	194.6	0.7	8.2	10.7
Building and construction	1,004.7	4.7	1,324.0	4.6	8.1	7.3
Total commodity sectors	11,584.9	54.3	15,915.9	55.5	9.8	8.6
Communication, Transport and Storage	916 0	4.3	1,110.0	3.9	6.7	5.3
Suez Canal	719.6	3.4	944.5	3.2	3.9	6.4
Commerce	2,680.4	12.6	3,470.0	12.2	6.8	6.7
Finance	1,097.0	5.2	1,455.2	5.1	5.5	6.9
Insurance	51.3	0.2	69.1	0.2	9.1	8.0
Restaurants and Hotels	239.5	1.1	323.11	1.1	4.0	7.0
Total productive services	5,703.8	26.8	7,372.1	25.7	6.0	6.5
Housing	401.0	1.9	548.7	1.9	12.5	9.0
Public Utilities	42.0	0.2	72.3	0.3	11.4	13.9
Social and private services	866.0	4.1	1,083.4	3.8	7.0	6.0
Social Insurance	22.3	0.1	30.3	0.1	8.3	8.0
Government services	2,696.0	12.6	3,652.7	12.7	8.4	8.0
Total Social Services Sectors	4,027.3	18.9	5,387.4	18.8	8.5	7.7
Grand total	21,316.0	100.0	28,675.4	100.0	8.5	7.9

Source: Ibid., p.6.

7) As to the investment allocations under the 1982/83 -1986/87 plan, it is apparent that industry and mining account for 27.2% of the total planned investment during the period. Service products, housing and the agricultural sector and related activities account for 20.3%; 11.1% and 10.8% respectively (graph C-1

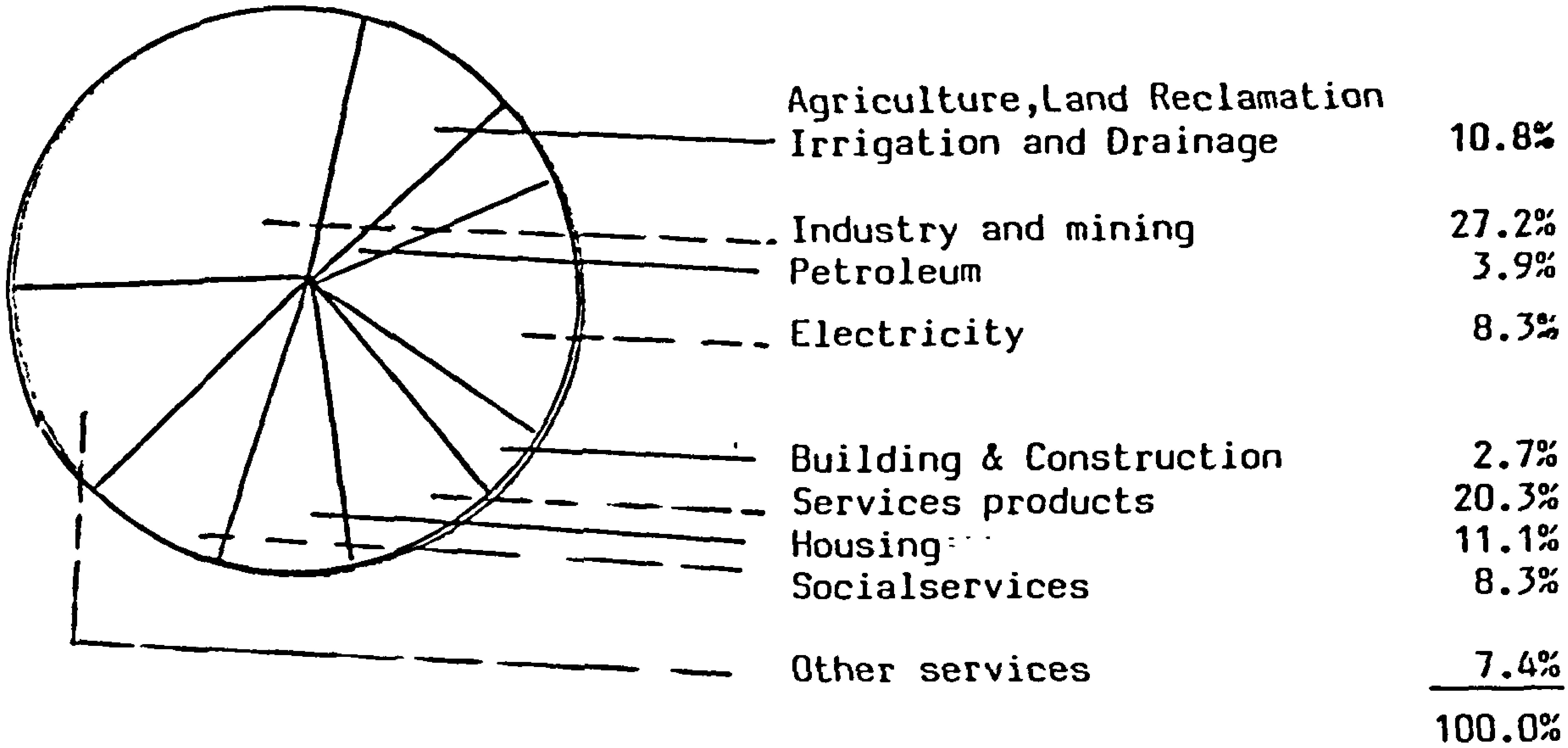
8) As to the relationship between the GNP and the planned investment according to the plan projections it appears that[11] a) oil and oil products will represent the first sector contributing to the GNP in 1986/87 and are expected to represent 19.2% of the GNP, followed by agriculture, 16.1%, then industry and mining, 14.9%.

b) The contribution of the commodity sectors to GNP will increase in absolute and relative terms, while the productive services sectors will increase in numerical terms and decreases in relative terms. The same will apply to the total social services sectors.

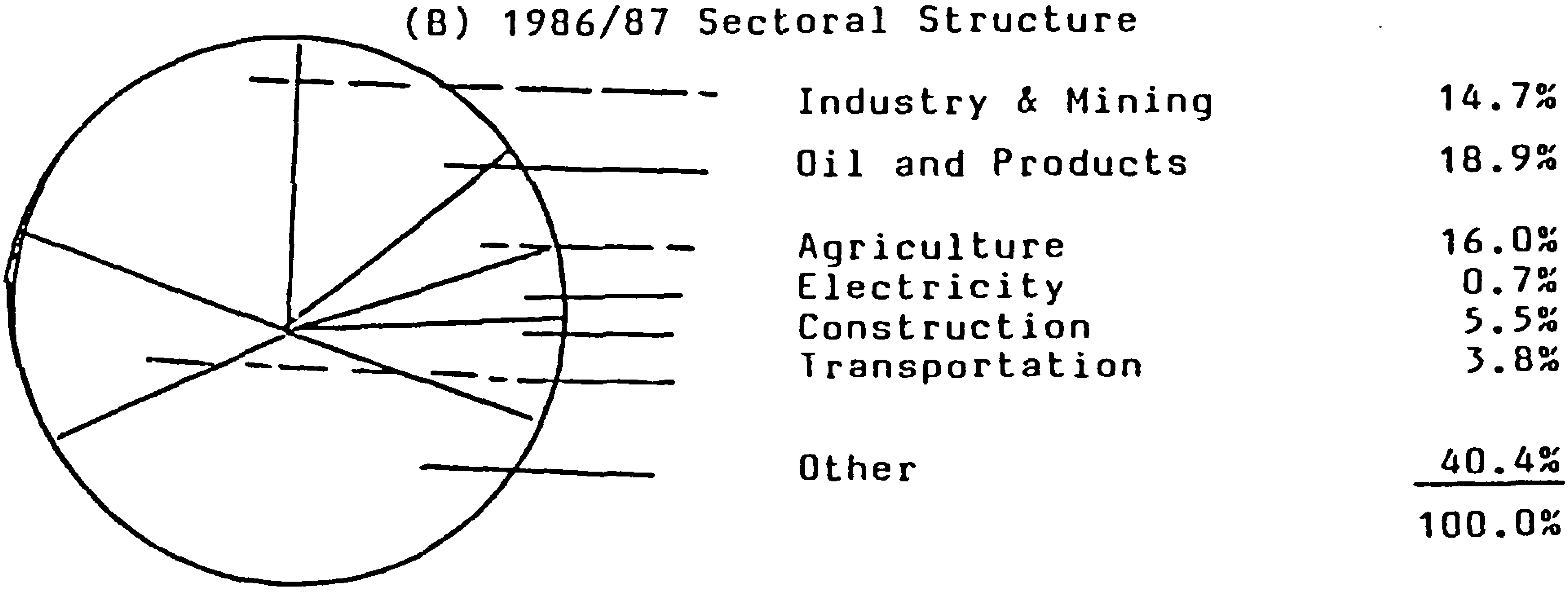
9) An analysis of the GDP in relation to other sectoral targets shows that product (net output) is projected to grow slightly faster than gross output. This implies an improvement in technical coefficients, ie. a reduction in input/output ratios. Table no.3 in Appendix (A) shows such reductions for all sectors except electricity and social and personal services.

Graph (C-1) Egypt: Five-year development plan 1982-83-1986/87

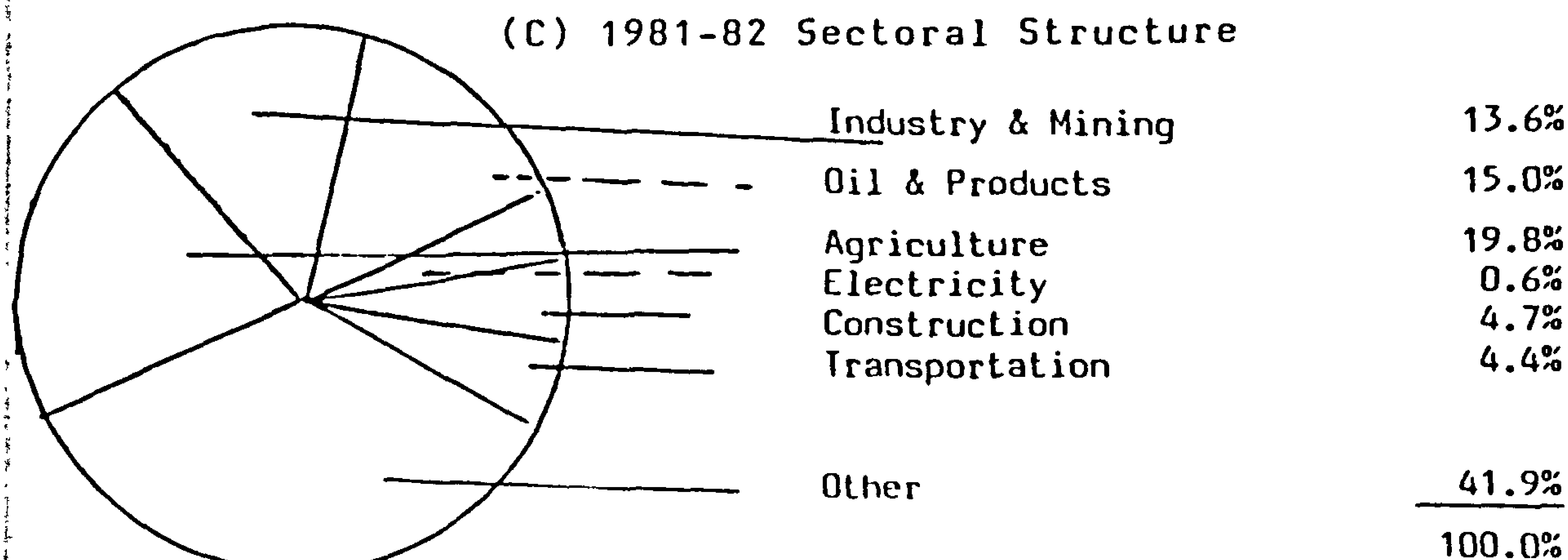
(A) Sectoral Investment Allocations



(B) 1986/87 Sectoral Structure



(C) 1981-82 Sectoral Structure



Source: Ministry of Planning,1983.

Overall, however, the effect is small particularly since manufacturing and industry generally, which have above average input/output ratios are projected to expand faster than other sectors. The GDP share of industry, is in fact, expected to rise from 34 to 39%. The major part of this increase is however, expected to come from the oil sector. Moreover, and despite the emphasis on commodity sectors, the planners consider a growth rate of 3.7% The maximum that can be expected from agriculture[12].

c) The role of the private sector's investment in the Five Year Plan

The private sector's actual investment contribution for 1977-8/82 is put at 18.9%. For the present plan, it is increased to 23.5% - a grand total of over LE 8, bn. As table (C-7) shows, more than half of the private sector's investment is seen as going to the housing sector. The private sector's annual investment in housing is in fact set at LE 875Mn compared with an actual figure of just over £E 300mn in the previous year. For the commodity sectors as a whole, private sector investment is expected to increase approximately by 85% remaining at under a quarter of the public sectors. For the service sectors other than housing, the sector's contribution is seen as relatively insignificant - except in finance, and insurance, hotel and restaurants which are themselves minor sectors in investment terms[13].

Table (C-7)

The Private Sector's Investment Role in the Five Year Plan
(£E mn cumulative 1982/83-1986/87 at 1981/82 prices)

	Public	Private	Total	Private shares (%) (a)	Private shares (%) (b)
Primary					
Agriculture	889	789	1,678	47.0	9.7
Irrigation & drainage	1,831	230	2,061	11.2	2.8
Sub total	2,720	1,019	3,739	27.3	12.5
Secondary					
Manufacturing & mining	6,842	1,775	8,617	20.6	21.7
Petroleum & products	1,337	-	1,337	-	-
Electricity	2,845	59	2,904	2.0	0.7
Construction	527	415	942	44.1	5.1
Sub total	11,551	2,249	13,800	16.3	27.5
Total "Commodity"	14,271	3,268	17,539	18.6	40.0
Tertiary - productive					
Transport, storage & communication	5,534	245	5,779	4.2	3.0
Suez Canal	335	-	335	-	-
Commerce	421	40	461	8.7	0.5
Finance & insurance	79	40	119	33.6	0.5
Restaurants & hotels	313	140	453	30.9	1.7
Sub total	6,682	465	7,147	6.5	5.7
Tertiary - social					
Housing	264	4,373	4,637	94.3	53.6
Public utilities	2,858	-	2,858	-	-
Education	898	23	921	2.5	0.3
Health	625	27	652	4.1	0.3
Other	1,028	9	1,037	0.9	0.1
Sub total	5,673	4,432	10,105	43.9	54.3
Total services	12,355	4,897	17,252	28.4	60.0
Grand total fixed	26,626	8,165	34,791	23.5	100.0

a. Private share of sectoral total. b. Sector share of private total.

Source: FYP, in C. Daniels. Egypt in the 1980s, op.cit., p.121.

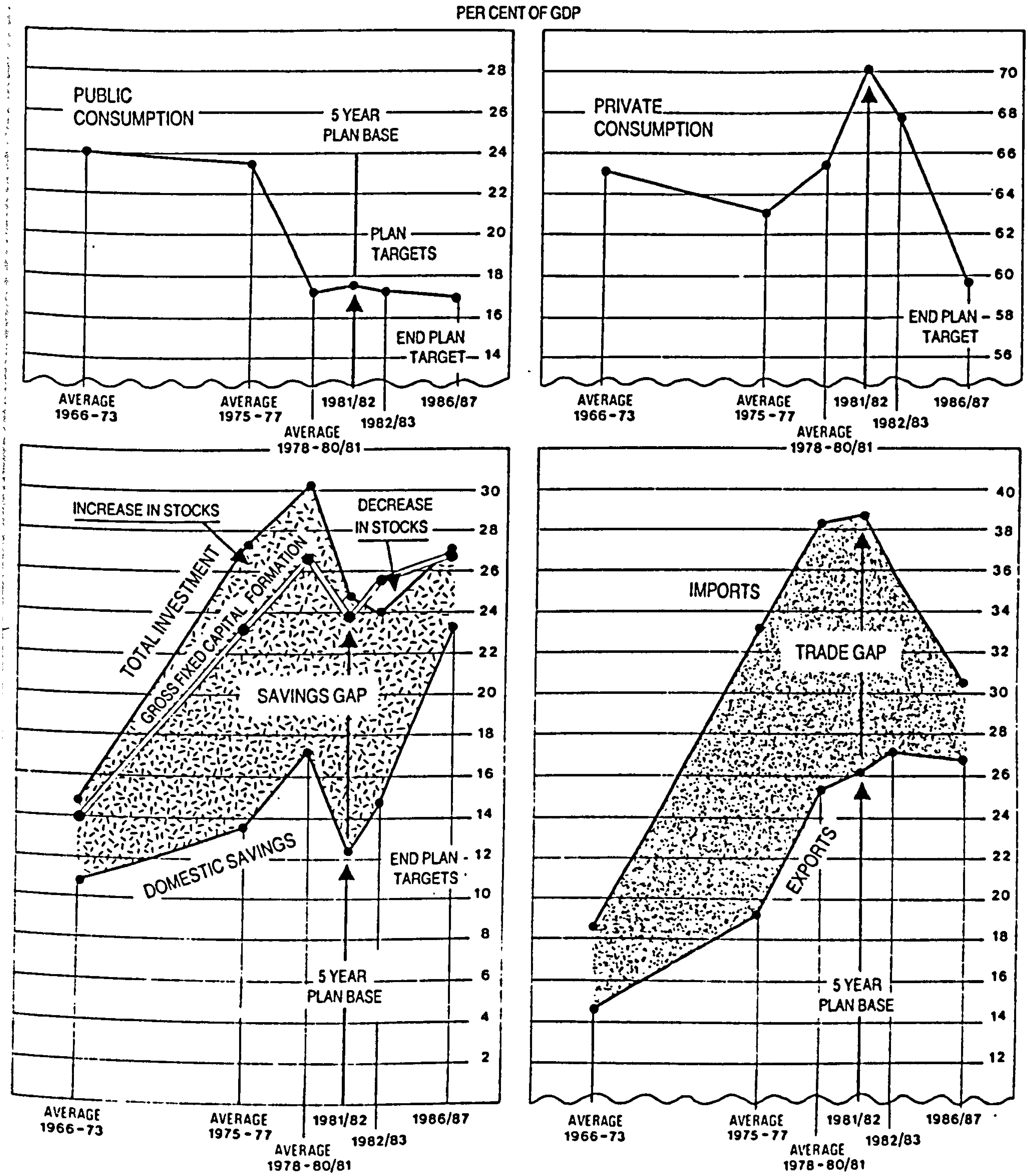
Finally, it may be useful to present a summary of the macroeconomic targets of the five year plan to explore the extent to which this plan will contribute to Egyptian economic and social development. Graph (C-2) therefore portrays a comparison between the macroeconomic targets of the plan with what actually happened in previous years.

Broadly speaking, it becomes clear that the comparison reveals to a certain extent that there is not, as expected, a dramatic shift, regardless, for example, of the apparent steadily rising share of allocable investment in some economic sectors.

Yet, for the economy as a whole, the five-year plan is, arguably expected to yield a complementary increase in Egpyt's GDP. It is by no means a genuine step towards the re-establishment of Egypt's industrial base and the development particularly of the public utilities. It seems likely that the private sector investment is markedly encouraged under the present plan compared with any previous periods. As far as the public sector is concerned, the government of Egypt has recently (1983) announced a new legislative procedure for further encouragement of the public enterprises to accomplish the plan's targets. The new legislative efforts aim in general to restructure the nationalised industries by means of a bill to put the state-owned enterprises on a more commercial footing by transferring the authority from Ministers to the Boards of public companies[14]. This simply means that the bureaucratic

GRAPH (C-2)

EGYPT:
The Macroeconomic Targets of the Five Year Plan



Source: C. Daniels, Egypt in the 1980s, op.cit., p. 16.

burdens and delays will relatively be eliminated, as well as stimulating competition between the public sector's companies.

Additionally, the EBCC's Information Bulletin (no. 59, June 17 1985) has adduced that the Minister of Planning announced that the development policy for the year 85/86 aims to increase the Agriculture production to reach 4205 million LE with an increase of 127 million LE, compared with the expected figure of this year 84/85, an overall growth of 3.1% while the Industrial Production will reach 3970 million LE with an increase of 388 million LE, an overall growth of 10.8%. This leads to an increase in the Industrial and Agricultural Production of more than the half billion LE during the year 85/86.

4) <u>Market Size</u>. As already demonstrated, the size of market is one of the most important locational factors that may influence the FDI decision of a MNC concerned. Questions such as how big is an overseas market, and what is the market like ?, are arguably of great importance for the MNCs.

To assess an overseas market, it has been suggested that criteria such as, GNP per capita, GDP, the size of population, labour force, country's endowment and so forth can usefully be employed(15). Using these criteria as to the Egyptian situation, the following are probably the main features of the Egyptian market:

A) <u>Income and Production</u>. From tables (C-3) and (C-8) in addition to tables nos. (4) and (5) in appendix (A), it is clear that the GNP and GDP per capita are relatively growing over the past few years. GNP expenditure also recorded a marked increase during the mid 1970's up to the early 1980s.

Table (C-8) Egytp's GNP and GDP growth (in £E million unless otherwise stated).

	1979	1980	1980-81 (Preliminary)	1981-82 (projected)	Growth
GNP(Market Prices)	13.2	16.4	19.2	21.9	13.9
GDP (Market prices)	12.4	15.9	18.4	21.0	14.5
GDP(Factor Cost)	11.9	15.6	15.8	17.9	13.5
GDP per Capita	303	376	421	469	11.4

(1) Fiscal year changed in 1980 to begin ön July 1 instead of January 1. (2) According to the World Bank Annual Report (1980-Table 1, pp.130-131), the average growth rate of both total GNP and GNP per cpaita of the developing countries in 1976-79 are 5.2% for the former and 2.8% as for the latter.

<u>Source:</u> Financial Times, Egypt: Survey, June 7 1982,

It is nevertheless, important to have a look at the annual price changes and the components of the urban consumer price index in the light of the income levels illustrated earlier as a major determinant of demand. In this respect, tables (C-9) and (C-10) show both the annual price changes and consumer price index, as well as the annual increases.

Table (C-9) Annual Price Changes.

	1976	1977	1978	1979	1980	1981	1982
Wholesale price index[a]	7.8	9.3	14.8	9.8	21.7	8.0	9.3[b]
Consumer price index[a]							
urban	10.3	12.7	11.1	9.9	20.7	10.5	14.9
rural	11.9	10.1	13.3	6.2	25.1	13.6	...
GDP deflator	19.8	21.3	8.1	17.4	21.7	10.3[c]	...

a Changes calculated from averages for year (i e average of monthly indices rather than December/December). b Estimates based on less than full year's indices. c 1980-81/1979-80.

<u>Sources</u>: Capmas, Ministry of Planning, in C. Daniels, Egypt in the 1980s <u>op.cit.</u>, p. 19.

Table (C-10) Components of Urban Consumer Price Index.

	Index 1980 (1966/67=100)	Annual Increase (%) 1975-80	1980-81[a]
Food & beverages			
cereals	181.1	8.3	7.3
pulses	413.3	16.5	-2.8
meat, fish & eggs	460.6	16.8	17.8
dairy products	380.5	14.7	5.2
vegetables	385.8	12.9	64.7
fruits	436.0	17.7	0.9
All food & beverages[b]	355.6	14.4	13.0
Housing	116.1	1.5	-1.7
Furniture & durables	187.7	9.0	7.5
Clothing	248.3	15.8	3.9
Transport & communication	193.9	9.5	7.2
Services	270.8	14.5	2.6
Personal expenses	210.7	11.2	1.4
All items	272.7	12.9	9.6

a Year on year, i e December to December. b Including other sub items not shown separately.

<u>Source:</u> Capmas (EB), <u>loc.cit.</u>

It is evident that there is a substantial increase in consumer prices. As to the component items, it has been established that of four items showing a cumulative rate of increase under 10% in 1976-80 there are housing, cereals, and transport and communications. But as shown in the final column in table (C-10) the changes in the index components during 1981 fully demonstrate the need to take a longer period that one year to get a realistic view of price trends. Perhaps, price controls and sbusidies have been most evident in basic foodstuffs, fuel prices and rents. This in fact is reflected in the components of the consumer price index in Table (C-10). Quite apart from the recent reduction of governmental subsidies of some commodities.

Moreover, as a Business International survey reports, there has been a marked widening in the disparities in both rural areas the top 10% take approximately 25% of available income and the lowest 40% take about 20% of that income with the disparity slightly greater in urban areas(16). In another report, Business International demonstrates that personal consumption in general is lagging behind the consumer prices(17).

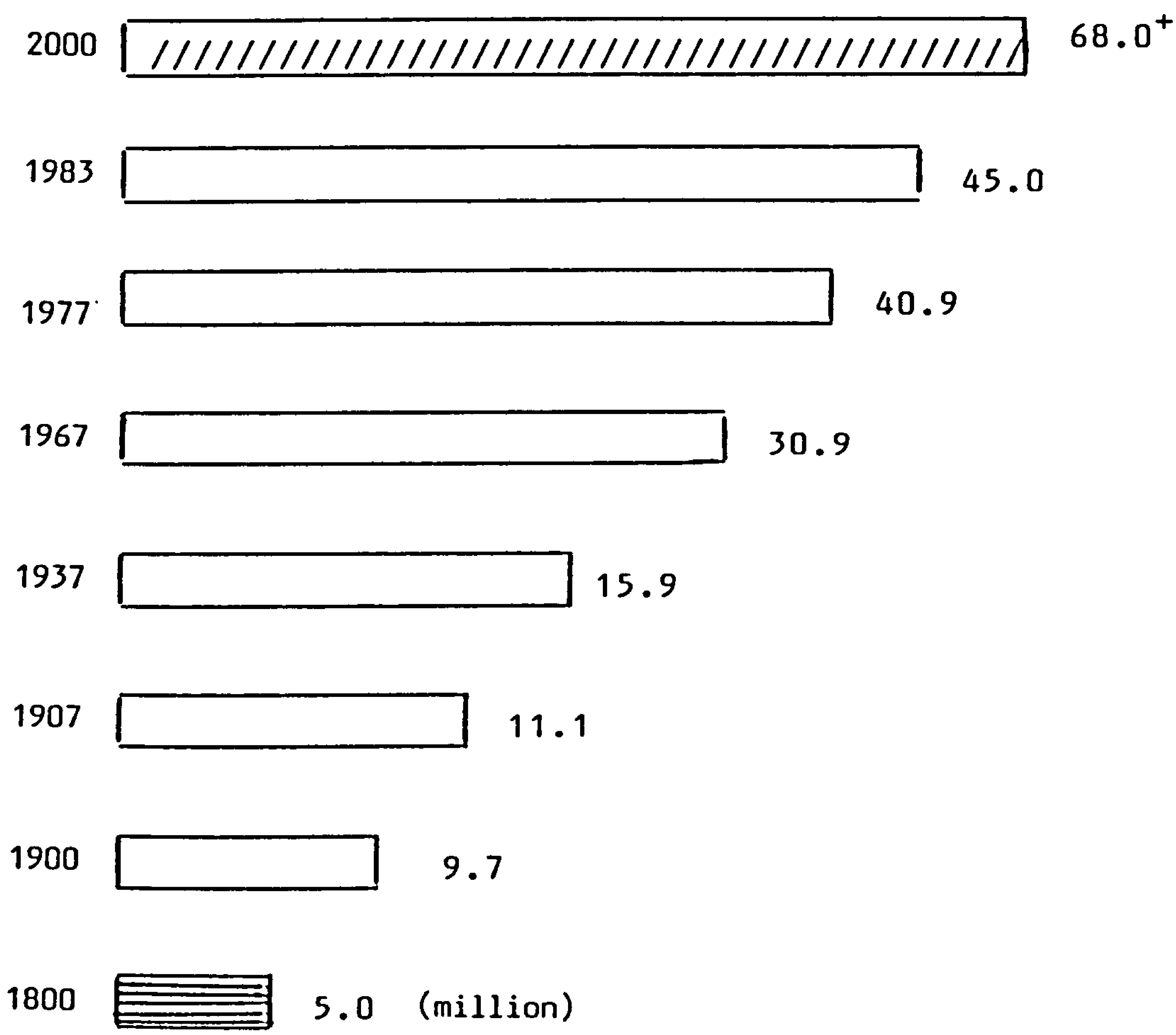
With respect to consumption behaviour, Egypt does not greatly differ from most developing countries in having relatively low spending levels in the countryside. According to Ikram(18), the average annual household expenditure in the mid 1970s was about £E 375.42 for rural families and it accounted for £E 556.75 for the urban families. To some extent it could be argued that the lower spending by rural families is usually explained by incomplete monetization of rural economy and lower markups on food. At the same time, as in most developing countries, the budget share devoted to food consumption is high (more than 50% of the budget for all consumer groups except the very richest is evident in the case of Egypt according to Ikram's study)[19]. In addition, it has been reported that a considerable part of consumption purchasing as income goes up (particularly with the richer class in Egypt) appears to be spent on imported luxury items[20].

The MNCs management would be unwise to ignore the impact of the above problems not only upon the size of the market either on the national level or the regional one, but also on MNCs pricing policy which can be affected by such problems. e.g. because of income disparity between rural and urban areas it may be difficult for a MNC concerned to standardize its pricing policy, to transfer products form urban to rural regions, etc. In short the MNCs pricing policy will probably be distorted to a great extent. Additionally, despite the reduction of huge subsidy programmes for some basic commodities and services in the 1980s, the government still holds a considerable degree of control on prices of many consumer goods. Even if one considers that the reduction of subsidies is in favour of a MNC, it is also possible that the threat of social tensions may emerge.

(B) Population and Labour Force

As illustrated earlier, Egypt's population is the largest in the Arab world and the Middle East as well (about 45.0 million, and it is growing at annual rate of 2.5%). As shown in the following graph (C-3) the population will reach about 68.0 million by 2000.

Graph (C-3) Egypt's population growth, 1800-2000.



\+ Estimates.

Source: Ministry of information, Cairo-Egypt : Facts and figures 1983, Population density in the Nile Valley and Delta areas has reached over 2,400 persons per square mile, the highest in the Middle East. Moreover, Egypt is highly urbanized, with some 9.5 million people living in the Greater Cairo area, and 3 million in Alexandria[21]. According to the foregoing figures, one can consider the size of the Egyptian market in population terms as the largest in the Middle East.

Another important factor with respect to Egypt's Market Size is perhaps related to the supply of labour. In this context table (C-11) shows an increase in the size of the labour force with a 4.4% growth rate during 1979-1981382. Also Table (C-12) portrays the structure and growth of employment in economic sectors since 1973 up to 1981/82. Data in this table shows that a higher proportion of the labour force is in agriculture.

Table (C-11) The size of labour force and its growth rate in Egypt 1979/82

	1979	1980	1980/81	1981/82	Growth Rate
Labour force (in Million)	10.7	11.0	11.3[a]	11.8[b]	4.4

(a) Preliminary, (b) projected.

<u>Source:</u> Financial Times, June 7, 1982.

Table (C-12) Structure and growth of Employment in Egypt 1973, 1981/82.

Economic Sector	Proportion of Total (%)	
	1973	1981/82
Agriculture	47.0	36.2
Industry	16.4	18.9
Distribution	14.3	14.2
Services	22.4	30.8

Source: C.Daniels, Egypt in the 1980s, op.cit., p. 38.

At the same time there is a decline (10.8%) in employment in the agriculture sector. Data also shows employment increasing in sectors such as industry, services. This is probably because of the emigration of agricultural workers to other industrial sectors especially in construction for example.

Generally speaking with 11.8 million skilled, semi-skilled and hihgly educated engineers, scientists and a managerial workforce, in addition to the population boom Egypt can offer the MNCs a large labour force compared with other Middle Eastern countries. (As far as the five year plan is ocncenred it is planned to create 400,000 new jobs)[22].

It is nevertheless important to note the following related demographic indicators:[23]

1. Life expectancy at birth (1979): 57 years.
2. % age of the population under 15 years of age (1970): 40.
3. Literacy rate (1980) : 54.3%

As demonstrated earlier, the MNCs which operate in Egypt may for example need to train the local workforce because of the low literacy level. There may also be a problem in relation to the advertising and communication mix in general(*). Despite the population boom, it should be taken into account that: (a) 40% of the total population is under 15 years of age and (b) the life expectancy at birth is also low compared with that in a developing country, when assessing the quality, willingess, and the size, etc. of the labour force in Egypt.

As to the costs of labour, it has been reported that labour, in Egypt is relatively cheap (Table C-13) displays the average wage per employer in the main economy sectors and the average increase per annum.(+) Yet, it must be noted that while the price of labour is relatively cheap, hiring professionals is probably expensive because of the emigration of the skilled labour and professional managers, technicians and engineers to oil-rich Arab countries.[24]

C) Endowments. Egypt is fortunate to be endowed with several types of endowments. Egypt posesses large deposits of natural resources, and valuable raw materials, e.g. the iron ores of Assean and the manganese mines of Sinai are familiar examples. Less well known are the raw materials

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(*) There are many examples and empirical evidence in Chapter (1) in Section B.

(+) Next page.

Table (C-13) Average Wage per employee (a) 1973-1980/81

Value in £E

(£E pa)	1973	1975	1977	1979	1980/81	Average Increase (% pa)
Agriculture	61	107	108	141	176	15.2
Manufacturing	)			506	731	14.2
Petroleum	)287	297	347	1,625	3,223	26.2
Electricity	323	376	328	533	752	11.9
Construction	223	300	380	388	515	11.8
Transport	280	315	385	472	630	11.4
Trade & finance	190	206	268	356	978	24.4
Housing	79	99	103	117	290	18.9
Public utilities	260	300	304)	528	356	4.3
Other services	281	344	357)		728	13.5
All sectors	164	201	233	344	535	17.1

a. The published estimates for average wages are not consistent with those for employment and the total wage bill. The latter are preferred in some cases for 1980/81 and are used as a basis for estimating the annual increases for manufacturing and petroleum.

(pa) per annum.

Source : Ministry of Planning, in C. Daniels, Egypt in the 1980s, op.cit., p. 67.

of the Red Sea area - here a barren spine of mountains follows the sea-line southwards towards the Sudanese border, separating the Nile from the Red Sea in a land of ancient mines and quarries, and of new expectations. Otber minerals e.g chromium, mica, nickel, graphite, gold are being found and surveys are currently conducted in the Western desert and along the Red Sea line. Moreover, one of Egypt's most important natural resources particularly in a Middle-Eastern context is its share of the world's greatest river, the Nile[25]. Its waters are harnessed to provide power and canalised to irrigate the rich soil of the country's farmlands.

In terms of the area, location, climate and topography Egypt is about four times the size of the U.K., (i.e.)1,002,000 sq. kms). Egypt's lies between the 22nd and 32nd parallels of latitude and between the 25th and 35th degree of longitude, and the country is mainly flat but in the South West, along the Red Sea and in the South of the Sinai peninsula, rugged mountains just out of the desert with some peaks rising to over 6,000 ft[26].

As to Egypt's climate, there is sunshine in EGypt throughout the year, but there are noticeable temperature differences between seasons, between day and night, and between various parts of the country as shown in table (C-14).

Table (C-14) Egypt's climate in selected cities.

	Alexandria		Cairo		Luxor		Aswan	
	Winter	Summer	Winter	Summer	Winter	Summer	Winter	Summer
Temp. Max.	18.8	30.2	19.6	33.5	24.0	40.6	24.0	40.6
C Min	9.6	21.2	9.7	21.4	5.6	21.8	8.5	24.0
Humidity %	69	70	58	54	48	29	34	16
Rainfall (min.)	147.4	0.3	25.0	0.0	00	00	00	00

Source: Ministry of information, op.cit., p. 6.

In addition, Egypt is a hub country, one of the most important centres of commerce throughout the world. The Suez Canal which has received so much publicity over the years, ranks as one of the world's most important sea passages. Egypt has always been a commercial crossroads for the East - West trade. Her commercial wealth is based on Egypt's geographical position at the crossroads of trade routes from three continents (Asia, Africa and Europe) which causes a bottleneck in the passage from the Indian Ocean to the Mediterranean, (see Map C-1).

Above all, Egypt by its favourable geographical position, climate, history and civilization holds an irresistible fascination for tourists. The tourist field in Egypt could be classified in two major forms of tourism: (1) traditional tourism (e.g. cultural and religious tourism), and (2) active tourism (e.g. sports, health, youth, cars, yachts, desert and aqua safari hunting, advanture and congress tourism.

The importance of tourism to Egypt is evident in table (C-15).(*) It portrays some information concerning revenues, number and classification of tourists, and their evolution 1977-81, in addition to the planned accomodation capacity, 1980-84.

(5) Exports - Imports and the Egyptian Trade Policy

Arguably, a MNC may need to investigate both its inputs and outputs in the context of exports and imports of the host markets potential. Such investigation would help in exploring the potential opportunities for exporting or manufacturing in the host market concerned.

Studying the country's trade policy, sources of supply and the major customers (ie. the trading partners) of the host country will probably show the measures and restraints which may impede trading activities with that country. In addition, it may demonstrate to some extent the government's ideology and its main orientation (ie. Western or Eastern-oriented).

Earlier, Egypt's exports and imports of main commodities and products in addition to the main trading partners have been generally illustrated in the context of the Middle Eastern countries. Yet it is appropriate to look at the items of exports and imports as well as the major trading partners in some detail. Thus, according to the most available data in this respect the salient features of Egypt's exports and imports in addition to its trading partners

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* Overleaf.

Table (C-15) Evolution of Tourists, revenues, main nationality groups, 1977-81 and planned accommodation capacity, 1980-84.

TOURISTS (Thousands)

(A)	Main Nationality Groups: Arabs	Europeans	Americans	Others	Total	Number of Tourist nights	Total Tourism Revenues (millions $)
1977	474.8	342.9	97.0	89.2	1003.9	6339	728.2
1978	455.4	367.5	136.3	92.6	1051.8	7137	702.3
1979	396.9	526.3	151.9	89.0	1064.1	7104	601.5
1980	479.4	496.0	518.1	119.6	1253.1	8083	776.2
1981	578.7	481.0	172.6	143.7	1376.0	9806	625.7

(B) Planned Accommodation Capacity, 1980-84

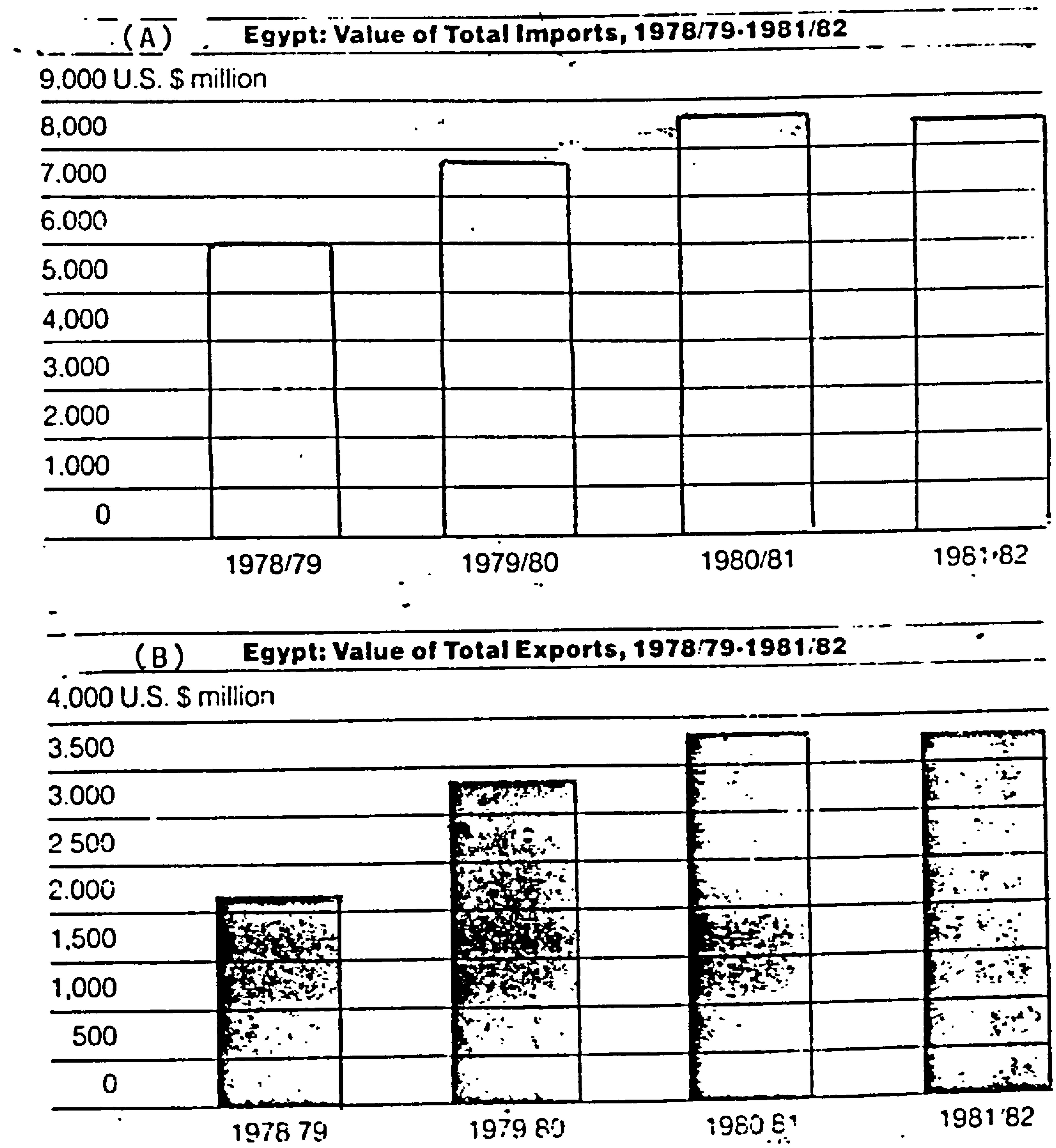
Region	5+4 Star Hotels	3+2+1 Star Hotels & Furnished Flats	Total
Cairo	8500	5000	13500
Alexandria	1700	1000	2700
Luxor	900	500	1400
Aswan	900	500	1400
Floating Hotels	1000		1000
Red Sea	900	1000	1900
North Coast	1700	2500	4200
Others			
Total	17000	11000	28000

Source: EBCC, The Journal of Egyptian-British Chamber of Commerce, Nov. 1982, p.9.

can be pointed out in the light of the following graph and tables:

1) Graph (C-4) shows the value of total imports and exports of Egypt, 1978/79 - 1981/82. From this graph, it is apparent that the value of imports and exports during 1978/79 and 1979/80 is lower than the value realised in 1981/82.

Graph (C-4) Egypt's value of total imports and exports, 1978/79 - 1981/82.



Source: Central Bank of Egypt IMR.

As stated before, the Egyptian trade in general during the late 1980's particularly has been affected by the Arab boycott after the 1977 Peace Treaty with Israel. By electing Mr Mubarak as President of the Republic in 1981, a person who had indicated greater interest in mending ties with Arab nations, some Arabic markets have as a result been open to Egyptian trade because of the improvement in Egypt-Arabic states relationships.

2) Tables (C-16) and (C-17) shows the main exports and imports of commodities and products, 1973-1981, classified by: (a) main economic category and (b) main commodities and products.(*)

Based on the preceding tables, it is possible to characterise the structure of Egypt's exports and imports as follows: (a) exports of petroleum (crude oil and oil products) and raw materials (particularly raw cotton and cotton yarn) accounted for 83% of Egypt's visible exports in 1981 against 64% in 1973. A considerable annual increase in those two commodities in the early 1980s compared with the 1970s is also evident.

(b) Imports of consumer, capital and intermediate goods have moved markedly in step since the mid 1980's. i.e. between 1975 and 1981 the biggest increase was for consumer goods, followed by capital goods and intermediate goods respectively. Perhaps the increases in imported capital goods and some items of intermediate goods e.g. cement, reinforcing bars may be the result of the high investment and

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(*) For tables (C-16) and (C-17) see following pages.

Table (C-16) Egypt's exports of goods, 1973-81.

(A) Exports of Goods by Main Economic Category, 1973-81.

(£E mn)

	Petroleum	Raw materials	Semi finished	Finished	Total
1973	45	237	59	103	440
1974	50	318	86	139	593
1975	52	247	89	160	548
1976	149	227	77	142	595
1977	162	261	90	155	668
1978	189	199	147	145	680
1979	536	350	209	193	1,288
1980	1,370	401	209	152	2,132
1981	1,457	425	226	155	2,263
1973 share (%)	10	54	13	23	100
1981 share (%)	64	19	10	7	100
Annual increase (%)	54	8	18	5	23

(B) Exports of Main Commodities and Products, 1973, 1978-81.

(£E mn)

	1973	1978	1979	1980	1981
Crude oil	36.9	140.7	396.5	1,233.3	1,233.5
Petroleum products	7.8	47.9	138.9	137.3	223.8
Raw cotton	191.9	131.5	267.3	296.4	320.0
Cotton yarn	44.2	89.6	130.1	135.9	108.6
Cotton goods	16.7	40.8	56.0	56.2	39.2
Oranges	15.8	20.7	14.4	27.2	33.0
Potatoes	6.6	5.8	18.8	22.7	17.9
Bleached rice	23.6	18.5	22.1	23.0	28.7
Refined sugar cane	4.1	7.2	8.9	3.0	10.4
Aluminium ingots	0.4	29.0	32.1	35.4	77.8
Sub total items above	348.0	531.7	1,085.1	1,970.4	2,092.9
Share of total exports (%)	78.9	78.2	84.3	92.4	92.5

Source: Capmas, in C. Daniels, Egypt in the 1980s, op.cit., pp.82-83.

Table (C-17) Egypt's imports of goods, 1973-81.

(A) Imports of Goods by Main Economic Category, 1973-81
(£E mn)

	Fuel & raw materials	Inter-mediate goods	Capital goods	Consumer goods	Total
1973	88	132	79	62	361
1974	318	316	124	162	920
1975	394	619	260	266	1,539
1976	299	445	405	341	1,490
1977	285	618	567	414	1,884
1978	335	812	859	626	2,632
1979	343	894	823	626	2,686
1980	497	1,277	833	795	3,402
1981	1,028	1,959	1,588	1,612	6,187
1973 share (%)	24	37	22	17	100
1981 share (%)	16	32	26	26	100
Annual increase (%)	36	40	46	50	43

(B) Imports of Goods, Further Classification, 1973 and 1978-81
(£E mn)

	1973	1978	1979	1980	1981
Fuel & raw materials					
Crude oil & products	7.0	28.7	14.6	23.4	138.4
Wheat & maize	55.1	207.6	205.6	380.6	751.8
Tobacco	11.0	50.0	60.5	49.4	65.0
Wool & other	14.5	48.9	62.6	43.6	73.4
Sub total	87.6	335.2	343.3	497.0	1,028.6
Intermediate goods					
Fats & vegetable oils	16.5	60.1	75.0	79.7	84.6
Wood	11.2	109.6	98.9	191.6	264.3
Cement	0.1	44.5	99.0	103.1	164.9
Reinforcing bars	5.3	50.4	122.8	206.8	192.4
Chemicals & condensation products	20.2	76.2	103.8	166.7	146.4
Other	78.5	471.4	394.5	528.8	1,106.5
Sub total	131.8	812.2	894.0	1,276.7	1,959.1
Capital goods					
Textile machinery	11.2	60.8	41.1	45.0	70.4
Vehicles	5.3	232.5	203.1	177.9	414.1
Pumps	2.7	25.2	24.9	33.0	66.3
Excavating machinery	5.4	86.0	97.8	113.6	95.1
Electrical machinery	2.6	23.4	20.1	26.9	117.5
Other	52.0	430.9	436.3	436.5	824.8
Sub total	79.2	858.8	823.3	832.9	1,588.2
Consumer goods					
Cars & other durables	11.7	173.4	169.4	166.7	311.6
Sugar (refined)	-	40.6	34.9	84.7	164.4
Dairy products	1.3	49.0	49.2	78.1	150.9
Wheat flour	10.6	74.8	68.4	71.7	250.8
Other	38.9	288.2	303.7	394.2	422.3
Sub total	62.5	626.0	625.6	795.4	1,300.0[a]
Grand total	361.1	2,632.2	2,686.2	3,235.3	5,875.9[a]

a These totals are as they appear in the Economic Bulletin but are less than those given elsewhere.

Source: Capmas, ibid., pp. 83-84.

the rapid economic growth rate since the adoption of the ODP in 1974. It appears also that the liberalisation process has led to a significant upward shift in the proportion of consumers' imported goods.

It is nevertheless important to note that, in the early 1982 the Egyptian government placed a high priority on intermediate and capital goods rather than luxury non-essential imports(27). This new emphasis on the productive sector rather than on the consumer sector resulted both from the decrease in available foreign exchange and the desire for more equitable distribution of Egypt's financial resources(28). In short, the economic problems will remain the top priority of the govenrment. The high population growth and rising public expectations, are sapping the meagre industrial output available for export. Substantial increases in food consumption far outstrip agricultural production; the coutnry imports half of its food, etc.(29).

3) Table (C-18) displays the main trading partners with Egypt, and table (C-19) shows OECD exports to Egypt and imports from Egypt 1982-83. From these two tables, it is apparent that the bulk of Egypt's trade is western-oriented, especially since the mid 1970's i.e. as a result of the ODP.

The salient features of Egypt's trade policy can be summarised as follows:(30)

(1) tariffs on raw materials and capital goods are generally low, while rates are high on luxury consumer goods.

Table (C-18) Egypt main trading partners, 1973 and 1978-81.

(a) Exports to Main Trading Partners. (£E mn)

	1973	1978	1979	1980	1981
DME					
Italy	19.5	80.9	353.3	610.7	580.3
USA	6.7	37.0	44.2	163.8	86.4
Netherlands	5.1	34.4	97.8	122.6	93.3
West Germany	13.9	28.2	67.3	55.4	51.7
UK	14.9	27.0	63.1	67.1	29.4
Japan	28.3	31.8	58.6	50.2	110.1
France	10.7	31.9	35.8	36.9	71.8
CPE					
USSR	146.0	115.2	101.8	89.5	93.1
Rumania	11.3	10.2	34.4	77.8	58.7
Yugoslavia	4.6	23.6	37.9	44.3	32.6
Czechoslovakia	26.2	15.5	32.0	24.7	6.3
China	7.6	25.4	21.8	39.0	47.9
East Germany	17.3	24.4	30.8	13.5	15.1
DGE					
Saudi Arabia	3.2	15.7	32.9	38.9	56.1
Lebanon	3.5	7.7	13.2	12.6	15.9

(b) Imports from Main Trading Partners. (£E mn)

	1973	1978	1979	1980	1981
DME					
USA	45.2	430.6	478.8	656.3	1,215.7
West Germany	28.3	289.3	288.0	321.0	628.1
France	30.7	194.4	206.9	347.9	583.1
Italy	17.0	198.5	228.1	229.0	456.1
UK	13.6	197.9	179.0	207.6	303.2
Netherlands	11.0	73.2	77.4	69.3	191.8
Japan	5.5	132.5	130.3	159.3	268.7
CPE					
USSR	25.6	89.0	53.5	53.6	160.4
Rumania	16.4	71.9	83.3	108.6	200.0
East Germany	18.0	31.9	25.1	20.9	34.6
Czechoslovakia	11.9	31.8	23.7	35.5	52.7
Yugoslavia	2.2	74.5	43.0	74.3	77.2
China	10.2	23.4	24.1	20.6	43.6
DGE					
Saudi Arabia	0.2	21.2	23.7	33.0	37.6
Lebanon	7.8	11.7	13.3	17.9	28.2

DME = development economies, CPE = centrally planned economies, DGE = developing economies.

Source: Capmas, in C. Daniels, Egypt in the 1980s, op.cit., pp. 79-80.

Table (C-19) OECD Trade with Egypt, 1982-83.

	OECD Exports to Egypt		OECD Imports from Egypt	
	1982	1983	1982	1983
U.K.	590	560	722	121
U.S.A.	2880	2810	547	302
JAPAN	660	850	168	257
GERMANY	1150	1160	434	304
FRANCE	1000	1110	341	523
ITALY	840	900	1195	1579
% of O.E.C.D. Total Exports	72.28	74.34	-	-
U.K. Market Share of O.E.C.D. Total %	6.0	5.6	-	-
U.K. Market Share of the 6 Countries %	8.3	7.6	-	-

Source: EBCC, The Journal of Egyptian-British Chamber of Commerce, December 1984, pp. 29-31.

(2) Egypt's tariff system is based on the customs co-operation council nomenclature. In the vast majority of cases, duties are assessed Ad. Valorem on the Cif value of goods.

(3) An economic development tax of 10% of Cif value is payable on imports, and 5% in the case of essential foodstuffs imported by the Ministry of Supply. A statistics tax of 2% of the Cif value is also payable on all imports except wheat.

(4) According to Law no. 133 of 1981 (as amended by law 102 of 1982 and law no. 360 of 1982) relating to imports and exports the rate of duty varies depending on the product. No tax is payable on goods entering the free zones, or goods being exported abroad from the free zones. Goods entering Egypt from the free zones are subject to tax, material entering Egypt for local assembly are subject to tax on arrival and a special tax is payable on the end product. Goods manufactured locally are subject to a lower rate of tax than similar imported goods.

(5) The ministry of foreign trade is responsible for planning, controlling and drawing up of the long-term policy for imports and exports and supervising the foreign exchange budget. All shall be subjected to the specific control on exports and imports. Also commodities subjected to control cannot be exported before the obtaining of an investigation certificate

testing their conformity with the conditions and specifications to be laid down by a decision of the Ministry of Trade after agreement with the competent authorities (Art. 10, Sec. 3, Law No. 118 of 1975). The same conditions are also applied in regard to imported goods.

(6) All public purchases are made by tender (either open or limited), and offers must be submitted through the Egyptian agents. Only very rarely are companies allowed to purchase direct from an overseas supplier, and this is usually restricted to spare parts for existing machinery.

(7) Imports under "open licence" or "own exchange" provisions do not count against foreign exchange budget quotas. The"open licence" system applies to certain commodites for which banks are authorized to provide exhange at the established rate for their importation without restriction.

(8) A few items are prohibited altogether,including rockets and explosives, and various textile products.

(9) Import licences are required for a range of products, e.g. telephone cables tractors, etc. and the import licences are valid only for six months.

(10) Private sector companies were given the right to seek suppliers abroad in 1975 and there is a gradual trend away from using the public sector trading companies.

(11) Companies may utlize their own resources of foreign exchange to purchase goods from abroad and such imports are not subject to the government's foreign exchange quotas. However, private sector transactions under the "own exchange" system must first have the approval of a special determination committee.

(12) Import-agent services are offered by the state trading companies, and by individuals and companies in the private sector.

(13) Except for strategic commodities (cotton, rice, oil, etc.) private sectors can export anything, and can import anything except war material.

(14) Egypt is a party to the GATT agreements of 1970, and it has a preferential trade agreement with the EEC.

Finally, it has been argued that the problems for the MNCs with respect to Egypt's trade policy lie in the risk of policy reversals. They may occur for a variety of reasons, and some may be a result of the liberalization policy or process which was adopted in 1974. Unless carefully and gradually implemented, liberalization often creates social and political tensions that can force a government to abandon or change its policy drastically(31). It is nevertheless important to note that President Mubarak is always stressing the importance of the liberalization policy to the Egyptian economy. He has confirmed several times that the ODP is to continue,further encouragement are underway and there will be no reversal of this policy.

(6) <u>Channels of Distribution</u>. Channels of distribution in Egypt are composed of or complemented by agents, and distributors; retail trade, government procurement systems; foreign assistance programmes; and expositions such as the Cairo Fair. However the following are mainly related to agent, distributors, wholesalers and retailers(32):

(a) Agents and distributors - Agents can be of the public or private sector. They must be of Egyptian nationality.

(b) Private enterprises can purchase goods directly or through agents. While public enterprises can purchase goods only through agents (either private or public), except for the purchase of military goods.

(c) Agencies are required to be 100% Egyptian-owened, and all members of the board of directors must be Egyptian. Agents must be registered with the Ministry of Foreign Trade and their commission revenues must be described. Agents can be exclusive or not and a company can have different agents for different prdoucts.

(d) Wholesale and retail trade - Wholesale and distribution operations tend to be carried out by vertically integrated merchants or by public sector trading companies.

(e) Egypt's retail trade is dominated by a large nubmer of small, privately owned shops and vendors.

(f) Government co-operatives with hundreds of outlets also combine wholesale and retail activities by buying directly from importers, domestic co-operatives of factories, and retailing through their own outlets. Finally, the government also operates large relatively modern department stores in the major cities.

It may be useful in this connection to report that a field study's findings revealed that the tendency of the public companies to sell directly to the final consumers and industrial users is due to a desire either to exercise greater control over distribution or to get closer contact between the company and the users of the product. It has been demonstrated that 30 firms are mentioned as containing a group of 18, a group of 14 and an unspecified remnant. It realised there may be overlapping but still there is lack of clarity.[33] It is however, possible that the problems which may emerge from the government control over the distribution of industrial products will also apply to the MNCs which operate in Egypt.

(7) Infrastructure - Information and mass media[*]

Infrastructure is a critical variable in the analysis of a foreign economy. When considering the potential profitability of operations in a given country, the international marketer must evaluate the infrastructure facilities and degree of development. In very broad terms, Egypt in this respect suffers from various infrastructural deficiencies (like many Third World countries), such deficiencies may affect tremendously the MNCs activities in Egypt if it is

(*) This factor will be considered in a development context (in the third section of this Chapter regarding the cultural factors in Egypt. Examples of problems which apply to MNCs which manufacture in developing countries as a result of infrastructural deficiency have also been demonstrated earlier. In the context of analysing the case of the Middle Eastern countries, numerous indicators concerning Egypt have also been reported (see Chapter (1), Section (B)).

believed that the more adequate the quantity and quality of transportation, communications, information media, etc. in a country, the better the firm can perform its own production and marketing tasks there[34]. Where these facilities/services (e.g. paved roads, advertising media availability, energy suppliers, etc.) are not adequate, the firm must adapt its operations, or perhaps avoid the market altogether[34]. Furthermore, the size of market potential is to some extent contingent upon the infrastructural facilities available.

(8) Egypt's Financial Commitment. Egypt like many developing countries suffers from a shortage of foreign exchange required to serve FDI and money supply on a broad definition. In short, Egypt's financial commitment can be highlighted according to the following basis:

1) Balance of payments. table (C-20) reflects the following facts (a) in 1983/84 exports accounted for one third of Egypt's total foreign currency earnings while payments for imports accounted for 4.2% of the total payments during the same year. Comparing these figures with those for the previous year, one notes that the trend is continuous. b) Income from tourism during 1983/84 must be set against expenditure for the same purpose, arising mostly from more spending by Egyptians abroad, (c) proceeds of interests, profits and similar credits from Egyptians abroad is higher than proceeds from exports

Table (C-20) Egypt's balance of payments 1981/82 - 1983/84.

(Values in LE mn calculated on the basis of $1 = £E 0.81)

Reference Year 1981/1982	Inflow First current transactions	1982/83 Value	1982/83 %	1983/84 Value	1983/84 %	Changes (-) 1983/84
2765.1	1 Exports	2682.9	34.0	2861.7	33.3	178.8
401.2	2 Maritime Transport & Navigation	451.7	5.7	427.8	5.0	(23.9)
636.2	3 Suez Canal	669.6	8.5	681.8	7.9	12.2
2090.8	4 Interest, profits & similar from Egyptians	2998.2	38.0	3562.6	41.4	564.4
846.6	5 Tourism	1090.2	13.8	1065.5	12.4	(24.7)
6739.9	**6 Total (1 to 5)**	**7892.6**	**100.0**	**8599.4**	**100.0**	**706.8**
	Payments					
6569.0	7 Payments for Imports	6382.5	73.7	7190	74.2	807.5
121.4	8 Other Commercial payments	92.4	1.1	98.2	1.0	5.8
118.9	9 Maritime Transport & Navigation	111.9	1.3	143.9	1.5	32.0
659.2	10 Interests, profits & similar	789.2	9.1	840.0	8.6	50.8
198.3	11 Tourism	248.4	2.9	221.1	2.3	(27.3)
190.5	12 Government's expenditure	181.4	2.0	194.8	2.0	13.4
749.3	13 Other payments	858.7	9.9	1006.6	10.4	147.9
8606.6	**14 Total (7 to 13)**	**8664.5**	**100.0**	**9694.6**	**100.0**	**1030.1**
(1866.7)	15 Balance of current transactions (6 - 14)	(771.9)		(1095.2)		(323.3)
0.4	16 Second Transfers	17.9		18.3		
(1831.0)	**17 Balance of current transactions & transfers (15 - 16)**	**(754)**		**(1076.9)**		**(322.9)**

Source: EBCC, The journal of the Egyptian-British Chamber of Commerce, April 1985, p.7.

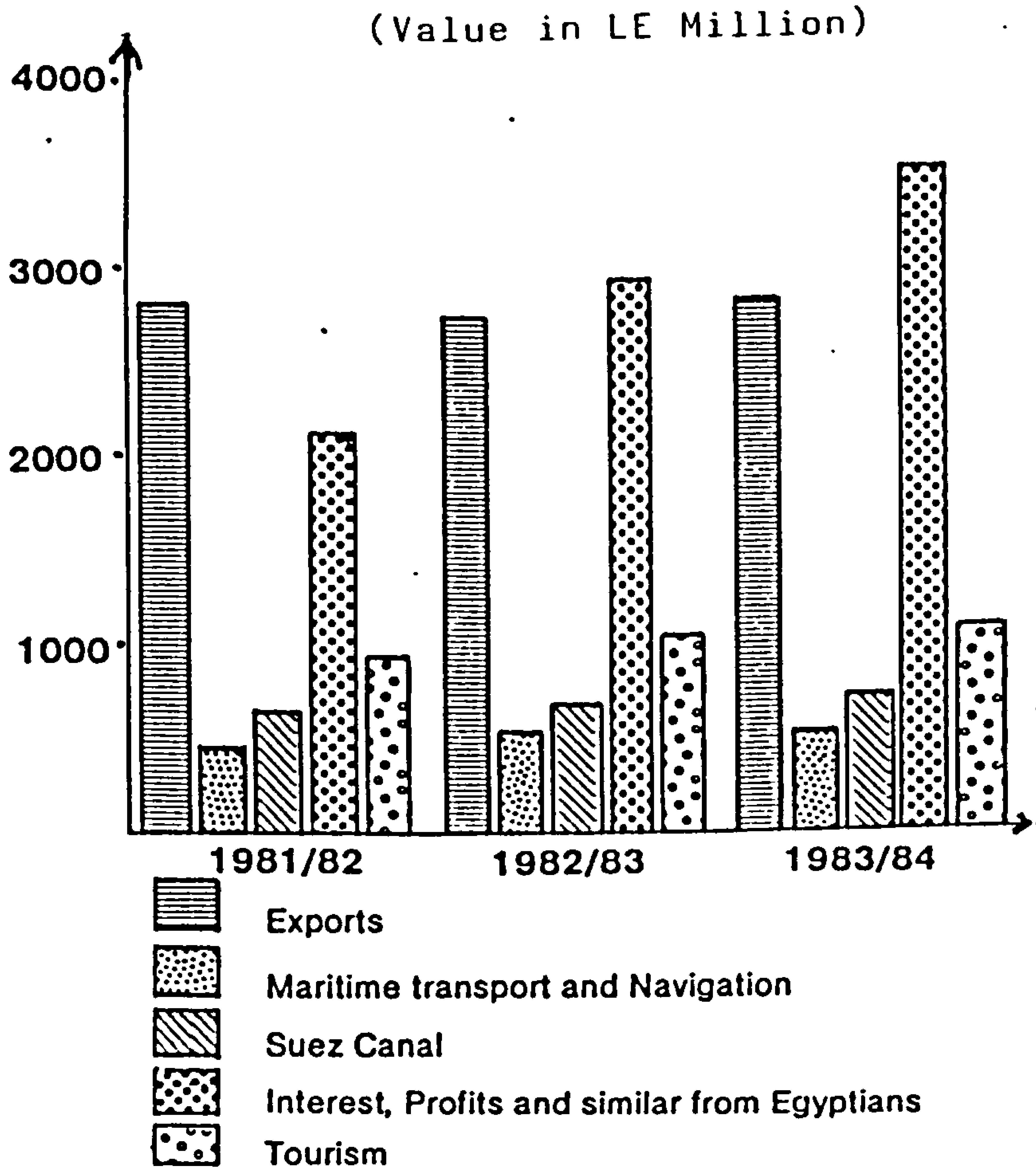
including oil, and is still consistently rising during the last few years. It represents 41.4% of all Egypt's proceeds from current transactions and (d) the final balance of current transactions and transfers in 1983/84 showed a deficit of LE 1076.9 million as against 754 million and 1831 million in 1982/83 and 1981/82 respectively (only 2.7% of the value of foreign transactions recorded by the Central Bank of Egypt are settled under bilateral payments agreement, the balance of 97.3% being transacted in convertible currencies)[35].

In general, it has been reported that the volume of Egypt's current transactions with the outside world increased by 10.5% during 1983/84 when it totalled LE 18.29 million, as against LE 16.557 million in 1982/83 according to preliminary estimates issued by the Central Bank of Egypt. This increase was mostly due to an increase in current payments which grew by 11.9% rather than to an increase in current proceeds from both visible and invisible transactions which increased by 9% during the same period. As a result the deficit in the balance of current payments increased from £E 754 million in 1982/83 to £E 1077 in 1983/84[36].

2) Sources of foreign exchange. The main sources of foreign exchange during 1981/82 - 1983/84 are shown in graph (C-5). Exports and the surplus in invisible transactions are still the main source of foreign exchange (for

Graph (C-5) Main sources of foreign exchange.

(Value in LE Million)



<u>Source:</u> EBCC, <u>loc. cit.</u>

the coverage of imports and that surplus during the last year was higher than the figure of Egypt's total visible exports including oil during the same period[37]. In this connection, it is useful to note that the big increases in money supply at an average compound rate of 29% a year between 1972 and 1981, and the real increase in national income (which grew at around 8% a year and at 21% expanding five and a half times over the same period). It has been reported that because local consumptions rising at 15% annually, the official inflation rate which is running at 16%, etc. These factors may influence Egypt's foreign exchange income i.e. they cannot make up the trade gap[38],[39].

3) Other financial flows. Egypt receives substantial aid inflows from several sources e.g. aid from the US is running at over $1 billion a year. The U.S. has also agreed to increase its aid to Egypt in 1985 by $385 million[40]. Other western nations contribute funds on a smaller scale. Egypt receives financial support from multilateral institutions such as the World Bank and its affiliates and other U.N. bodies. It has also been expected that improving relations with other Arabic nations are likely to provide a tangible thrust for further financial inflows to Egypt[41]. The International Bank has agreed recently to extent a loan of two hundred million US dollars to Egypt for the mechanisation of agriculture[42].

4) Foreign debt and reserves. Tables (C-21), (C-22) and (C-23) show Egypt's foreign debt and reserves. In general, Egypt's debt burden has been kept to a manageable level with the debt service ratio in 1980 remaining below the levels reached in 1977-1978. The ratio of total debt service to GNP was 6.9% in 1980 and in the 1982/83 budget the servicing of debt is estimated at 7.5%. Meanwhile, Egypt's total reserves increased markedly during 1980 and 1981 compared with 1978 and 1979. But the total reserves including gold valued at current market prices fell by 19% over the year ending July, 1982, to $1.44 billion which was low by international standards being sufficient in 1981 to cover an average of 2.5 month's imports[(43),(44)]. Finally, table (C-23) shows public foreign debt and debt servicing projection 1981/82 - 1986/87.

Table (C-21) External debts (U.S. $ Millions)

	1976	1977	1978	1979	1980
Total outstanding public debt of which:	8,781	12608	14312	16037	17386
disbursed	5767	8092	9921	11409	13054
debt service ratio %(+)	18.5	24.2	22.3	15.8	18.9

+ Debt service ratio = payments of interest and public and publicly - guaranteed debt as a percentage of earnings from exports of goods and services.

Source: Lloyds Bank Group Economic Report, 1982, p.27.

Table (C-22) International reserves 1978 up to 1983.

($ Million)

	1978 (a)	1979 (a)	1980 (a)	1981 (a)	1982 (b)	1983 (b)
Gold (valued at 35 SDRS per tory ounce)	104	104	103	103	578	757
Foreign exchange	481	529	1046	1152	698	742
SDRS	11	-	-	-	-	-
Reserve position in the IMF	-	-	-	28	-	32
Total Reserves	596	633	1149	1283	1276	1531

Sources: (a) Ibid., p. 27.
(b) Lloyds Bank Group Economic Report, 1984, p. 24.

Table (C-23) Public foreign debt and debt servicing projections, 1981-82 - 1986/87.

	Debt at year end	Debt Service (£E mn)		Debt Service Ratios(%)		
		Interest	Total	GDP	Exports[a]	Current Receipts
1981/82	13.0	575	1575	7.6	29.1	21.9
1982/83	14.1	640	1690	7.5	27.6	21.4
1983/84	15.1	660	1760	7.2	26.4	20.5
1984/85	15.7	685	1835	7.0	25.6	19.9
1985/86	16.1	715	1915	6.7	24.7	19.3
1986/87	16.2	750	2000	6.4	23.8	18.7

a. Goods and services including foreign partners' oil share.

Source: FYP, in C. Daniels, Egypt in the 1980s, op.cit., p.116.

(9) Government subsidies and inflation growth rate.

Over the past thirty years or so, it has been the practice of successive governments in Egypt to earmark funds specifically for reducing the cost of living. In 1975 government subsidies totalled LE 642 million and thereafter continued rising until 1981, by which time the total had reached a staggering LE 2000 million. Since then, as a result of government action, this figure has finally been reduced with the total amount allocated to direct subsidies standing at LE 1500 million in 1983/83[45]

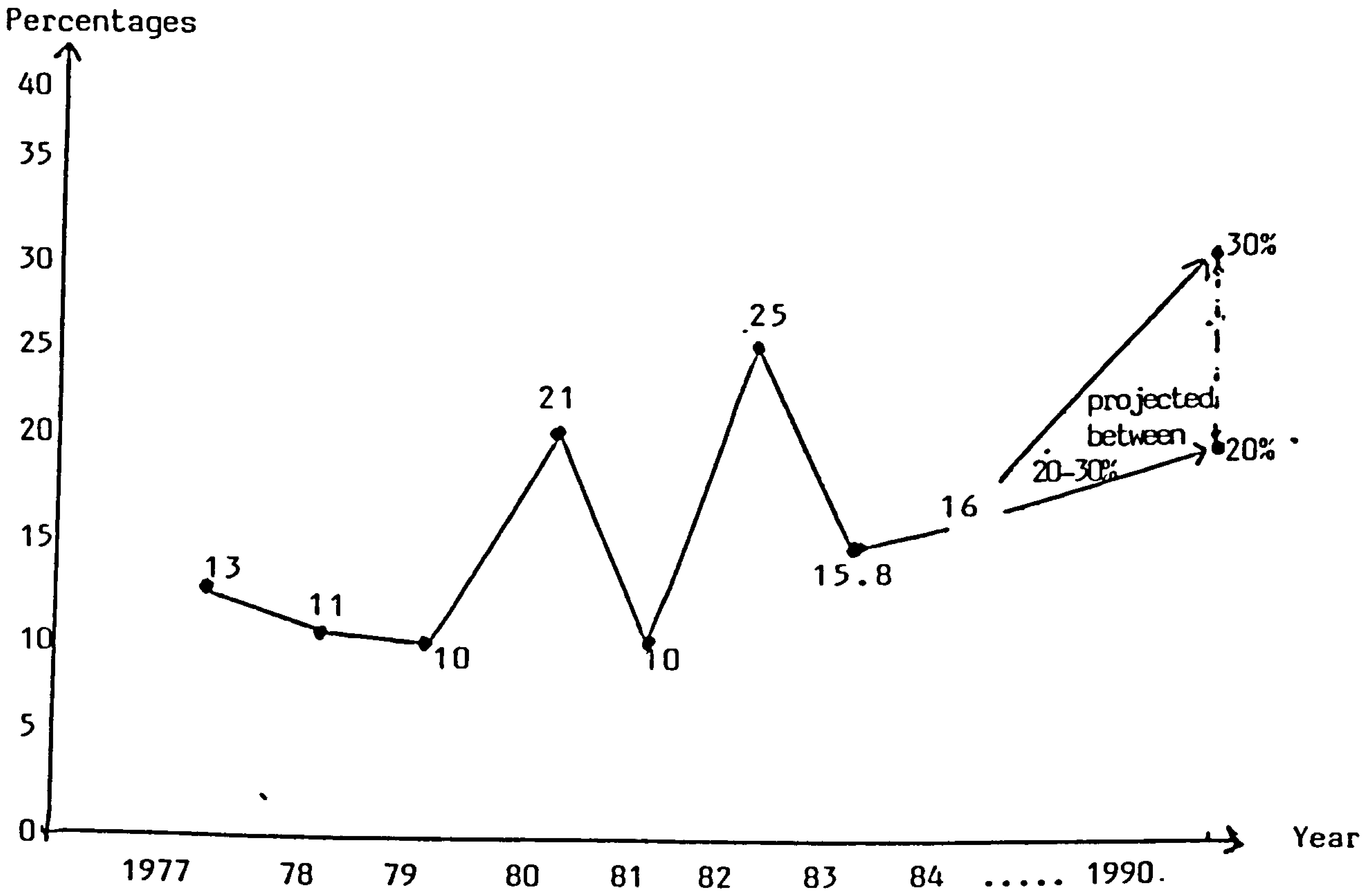
The economic, social and political effects of of subsidies are numerous, e.g. the current subsidy policy increases rather than lessens the economic obstacles currently facing the country, reduced prices encourage increased consumption and this in turn leads to an increase in botb the internal deficit and that of the balance of payments[46]. Moreover, subsidies combined with the failure of government's policy of price control may distort market forces. As illustrated earlier, the current indications of increasing income gaps among social classes may be the result of the failure of the price mechanism to achieve social justice. In other words, subsidy policy which was designed to help the poor is also benefiting others including the wealthy and foreigners who do not pay tax. Subsidies may also create a false impression that the government is capable of maintaining low prices in basic commodities apart from the price fluctuations that occur[47]. Also, when reducing subsidies for basic commodities and services social and political tensions may emerge.

In terms of inflation rates in Egpyt, tables (C-9) and (C-10) in addition to graph (C-6) demonstrate the trend of inflation from 1977 to 1984. It is also apparent from the graph that Egypt suffers from high inflation rates. Because Egypt is very vulnerable to pressure from world inflation as a result of its high level of imports as well as the extensive system of subsidies, it is also possible that the inflation rates will keep rising. The official inflation rate estimated in 1984 was 16% but this figure does not take into account imported non-subsidized goods.

The real rate according to Business International will be 20-30% per annum over the next five years(48).

As to the possible problems for MNCs which operate in or export to Egypt, it is possible that subsidies, price controls implemented by the government and high inflation growth rates will influence the ability of the MNCs managers to control their marketing operations or control the costs of production inputs. A MNC's ability to move funds or goods between Egypt and other overseas markets will be influenced also by the inflation differential rates between Egypt and its counterpart market.

Graph (C-6) Rates of increase in consumer prices 1977-1984.



Sources: (1) 1977 up to 1981 drawn from Lloyds Bank Group Economic Report, 1982, p.6.
(2) 1982 drawn from the Financial Times, Survey, June, 1982.
(3) 1983 quoted from, EBCC, the Journal of Egyptian British Chamber of Commerce, December, 1983, p.12.
(4) 1984 and the projected figure of 1990 drawn from: Business International, Egypt: prospects for profit, p.247.

(10) Gross fixed investment. The trends of fixed investment in Egypt since 1955 demonstrates continuous growth over the last three decades. A marked increase in fixed investment in several economic sectors is also evident during the 1970s compared with both the mid 1950s and 1960s[(49)]. The increase in the gross investment during the 1970s is probably due to the OPD which is also associated with the development of the relationships between Egypt and several Western bloc countries, particularly the U.S. This in turn encouarges the inflow of foreign investment to some extent.

Without embarking on more detail, table (C-24) illustrates total fixed investment, 1977-1981/82 and the planned sectoral investment and GDP increases in the 1982/83 - 1986/87 plan. Looking at the sectoral shares of gross fixed investment, it is apparent that both the tertiary-distribution sector and industry (manufacturing, mining and electricity) received shares of gross fixed investment much above other public sectors economic activities in 1977-1981/82. Housing and public utilities received also an aggregate about 16.6% of total sectoral share during the same period. It appears also that the main participation of the private sector investment lies in agriculture (ie. primary sector), construction industry and housing. Perhaps a closer look at the planned investment in 1982/83 - 1986/87 plan may suggest that the concentrations of investment in the secondary and tertiary - distribution sectors will probably yield an appropriate increase in the GDP.

Table (C-24) Gross fixed investment in Egpyt.

(values in LE mn at current prices)

(1) Fixed Investment, 1977-1981/82

	Public sector	Private sector	Total	Sectoral share (%)	Private[a] share (%)
Primary					
Agriculture, irrigation & drainage	1,117	487	1,658	9.2	29.4
Secondary					
Manufacturing & mining	3,902	967	4,869	27.0	19.9
Petroleum & products	476	-	476	2.6	-
Electricity	1,292	-	1,292	7.2	-
Construction	449	143	591	3.3	24.1
Sub total	6,119	1,110	7,229	40.1	15.4
Total "Commodity"	7,290	1,597	8,887	49.3	18.0
Tertiary - distribution					
Transport, storage & communication, Suez Canal	4,258	150	4,408	24.4	3.4
Trade & finance	460	76	536	3.0	14.2
Sub total	4,718	226	4,944	27.4	4.6
Tertiary - services					
Housing	472	1,377	1,849	10.3	74.4
Public utilities	1,135	-	1,135	6.3	-
Other services	1,230	259	1,489	8.2	17.4
Sub total	2,837	1,636	4,473	24.8	36.6
Total tertiary	7,555	1,862	9,417	52.2	19.8
Grand total	14,845	3,459	18,304	101.5	18.9
Less land	115	151	266	1.5	56.8
Gross fixed investment	14,730	3,308	18,038	100.0	18.3

a i e private share of total for economic sector.

(2) Planned sectoral investment & GDP Increases in the 1982/83 - 1986/87 plan

	GDP increase £E mn[a]	GDP increase Share (%)	Investment £E mn[a]	Investment Share (%)	Crude Icor
Primary					
Agriculture	768	8.3	1,678	4.8	4.9
Irrigation & drainage			2,061	5.9	
Secondary					
Manufacturing	1,694	18.3	8,617	24.8	5.1
Mining					
Petroleum & products	2,294	24.7	1,337	3.8	0.6
Electricity	77	0.8	2,904	8.3	37.7
Construction	454	4.9	942	2.7	2.1
Sub total	4,519	48.7	13,800	39.7	3.1
Total "Commodity"	5,287	57.0	17,539	50.4	3.3
Tertiary - productive					
Transport, storage & communication	505	5.4	5,779	16.6	11.4
Suez Canal	206	2.2	335	1.0	1.6
Commerce	972	10.5	461	1.3	0.5
Finance & Insurance	437	4.7	119	0.3	0.3
Restaurants & hotels	93	1.0	453	1.3	4.9
Sub total	2,219	23.9	7,146	20.5	3.2
Tertiary -					
Housing	192	2.1	4,637	13.3	24.5
Public utilities	35	0.4	2,858	8.2	81.7
Social & personal	317	3.4			
Social insurance	10	0.1	2,610	7.5	1.7
Government services	1,221	13.2			
Sub total	1,775	19.1	10,105	29.0	5.7
Total services	3,994	43.0	17,251	49.6	4.3
Grand total	9,281	100.0	34,791	100.0	3.7

a. At 1981/82 prices. ICOR = The crude incremental capital output ratio.

Source: FYP in C. Daniels, 'Egypt in the 1980s op.cit., pp. 103 and 119.

1.2 The political characteristics

Egypt was proclaimed a Republic following the revolution of July 1952 which resulted in the abolition of the monarchy. Nasser was subsequently elected the Republic's first President in 1956, a position which he held until his death in September 1970. When Nasser died, Sadat was elected the Republic's second president in October 1970.

In December 1970, Sadat - after he had been elected - ordered a sweeping reform of the sequestration and confiscation policy. Sadat's policy, in sum, was based on the following domains:[50]

(1) The sovereignty of law.

(2) Democratic dialogue.

(3) Removing unproductive bureacratic procedures and reduce bureaucratic controls and burdens.

(4) Setting up a free currency bank and free zone.

(5) New legislation concerning foreign, including Arab, capital investment.

(6) Re-organizing the government's structure.

In 1974, the ODP was started by passing Law 43 concerning the investment of Arab and foreign funds and the free zones. In spite of the ODP having given rise to a good deal of debate regarding its costs and benefits, it could be argued that the policy has removed to some extent the dogmatic socialism policy which was adopted in the 1960s.

At the present, the Egyptian political scene has become more democratic, though still characterized by government control and heavy involvement in economic affairs in particular. Centralization of economic decisions at Ministerial level, bureaucratic burdens, undermanaged public-companies, etc. are evident in Egypt. It is nevertheless important to note that the historic election of May 1984 brought a revived opposition party, the New Wafd, into the Egyptian Parliament (People's Assembly).

As far as the MNCs are concerned, despite the above-mentioned obstacles, and after the assasination of President Sadat (October 1981), President Mubarak and his government still encouraged the ODP.

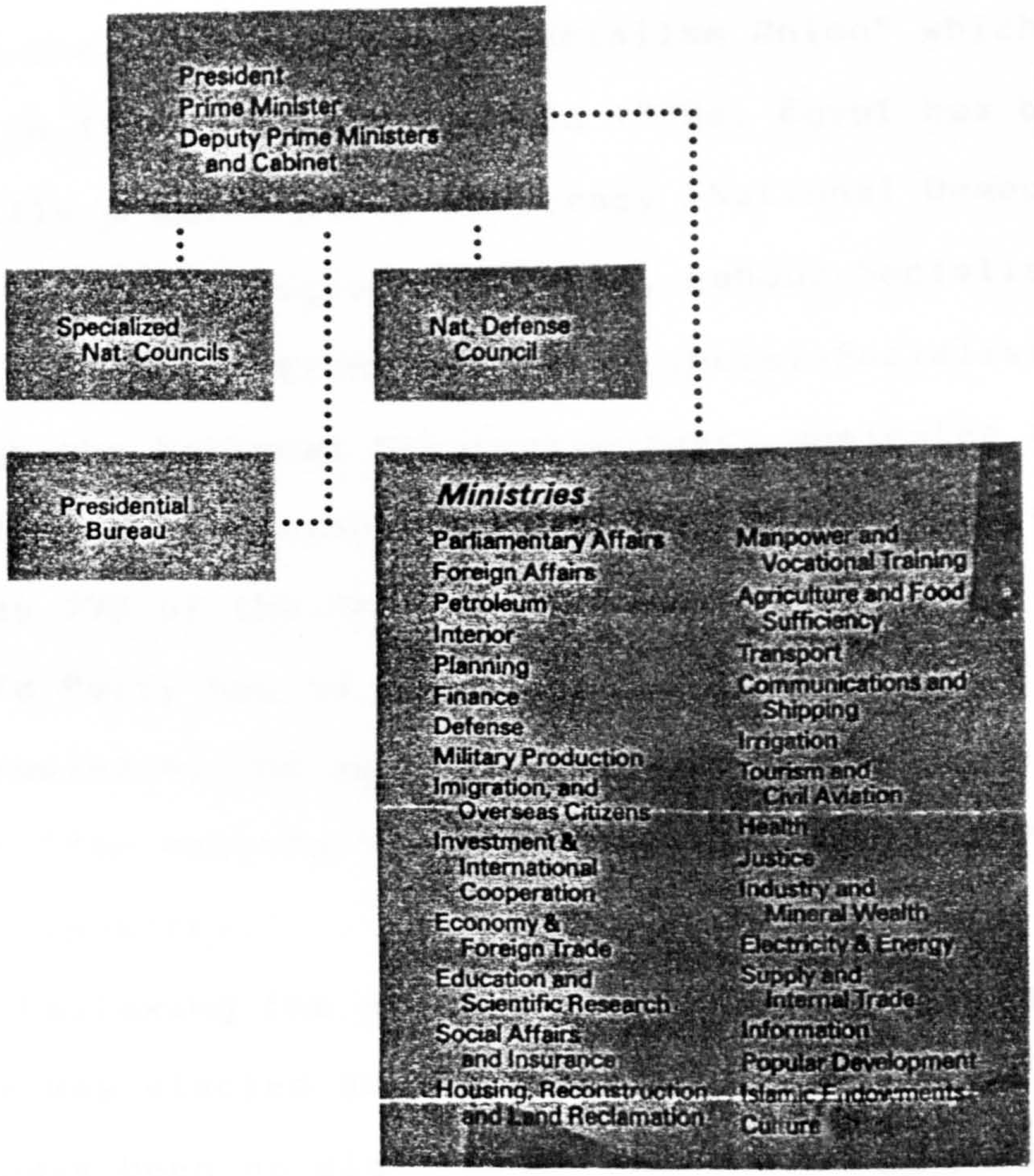
The salient political-legal features of Egyptian politics:

In sum, the following are arguably the fundamental characteristics of the political climate in Egypt:

(1) The government structure. The current structure is based on a President of the Republic, a Prime Minister who heads a cabinet made up of 4 Deputy Prime Ministers each of whom is responsible for a section of the country's administraiton, and about 27 Ministers as shown in Chart (C-1).

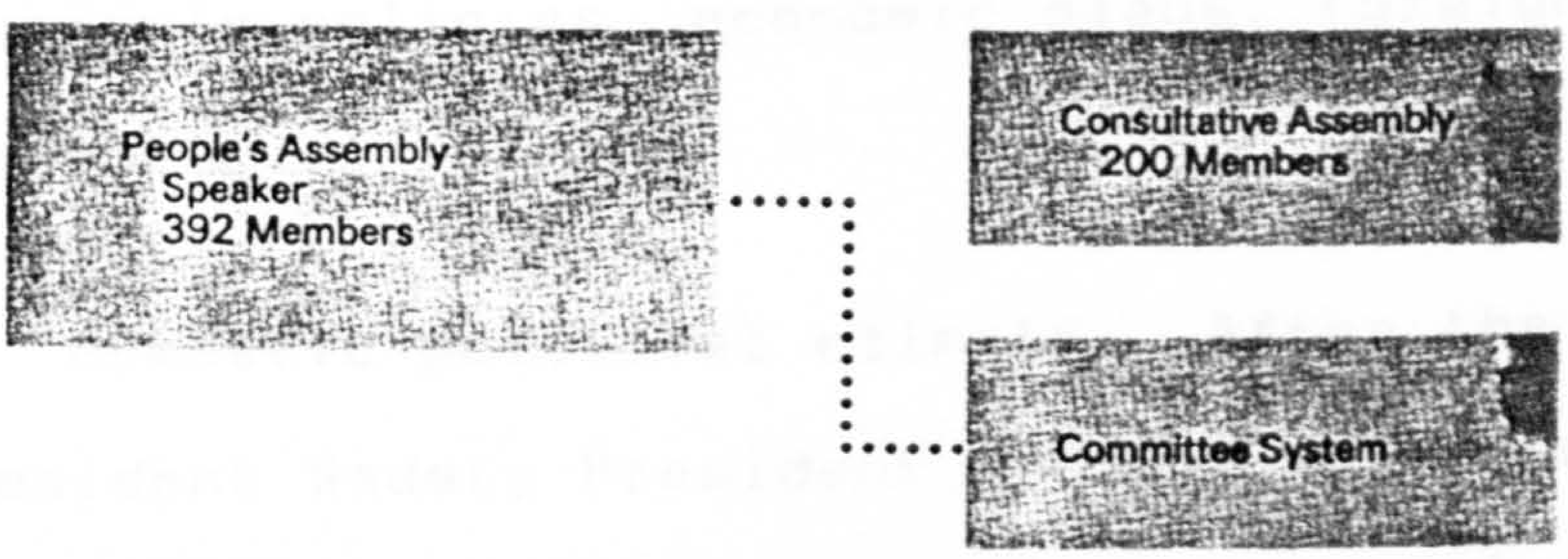
Egypt's legislative body is the People's Assembly which has ten appointed and 448 elected members, besides a consultative assembly (Congress) that has 200 members as shown in Chart (C-2).

Chart (C-1) Egypt's Government Executive structure



Source: Ministry of information, Cairo, 1982.

Chart (C-2) Egypt's legislative structure.



Source: Ibid.

(2) The political parties. Egypt had no political parties before Sadat's regime of the 1970s, except a single organization the so called "Arab Socialism Union" which was formed in 1962. Since the mid 1970s, Egypt has become officially a multi-party democracy (National Democratic Party; National-Progressive Party, Labour-Socialist Party; New WaFd party, Nation Party and Liberal-Socialist Party), although the National Democratic Party dominates the people's assembly and at present the National Democratic Party occupies 390 of the People's Assembly Seats, while the New Wafd Party has 58 seats, and the remainder of seats are occupied by the appointed members of the other parties' leaders (ten members have been appointed by the President of the Republic).

Following the assasination of President Sadat, Mr. Mubarak was elected as the country's new leader. So far, there have been no significant changes in Egypt's political parties. The smooth transition of power to Mubarak after the assasination of President Sadat can be recognized as a testimony to the stability of the regime. As in any democratic country, the party with a majority (National Democratic Party) in Egypt is responsible for carrying out the nation's policies, economic plans, foreign relations, and so forth.

(3) Domestic political climate. After the assasination of President Sadat, President Mubarak introduced a number of changes in domestic political arrangements. A concerted

effort was made to eradicate corruption in official circles and a large number of the generous benefits granted to government personnel in recent years have been withdrawn. Restrictions on the activities of some political opponents have been relaxed and the press appears to enjoy a much greater freedom of expression. These changes appear to have been favourably received by the electorate. Mubarak's efforts against corruption have prevailed in the Egyptian hierarchy, and the contrast between his style of leadership and the flamboyance of President Sadat have won wide support[51].

The stability of Egypt's domestic climate may be threatened by two enormous issues: (1) any large reductions in subsidies on basic consumer products and (2) the disturbances between small fanatical Muslim and coptic groups. Despite these potential problems the overall political climate remains stable.

In his New York speech in January 1983, Mubarak said: "Egypt enjoys a degree of stability unparalled in many countries", he added: "social tension is being reduced to a minimum. Our economic policy is geared to fulfil that purpose. There will be no shifts in policy or drastic changes in regulations. We will make it easier for you (i.e. potential investors) to enter into healthy partnership with us"[52].

(4) <u>The legal structure and judiciary</u>. The Egyptian system in this respect has been influenced not only by the Islamic teaching, but to some extent by the Napoleonic codes. The

main source of legislation is "SHARIYA".

The judicial structure (as shown in Chart C-3 overleaf), involves a supreme council, presided over by the President, which supervises the affairs of judicial organisations, although the highest judicial authority, with the power to determine the constitutionality of laws and regulations is the supreme constitutional court. Religious courts were abolished in 1956 and their functions were transferred to the unified national court system under the council of state. Cases involving security and armed forces are subject to military law(53).

The procedures regarding the establishment of foreign investment in general ensure that disputes will rarely arise. In cases where any dispute may occur, a settlement is provided by four possible methods:(54)

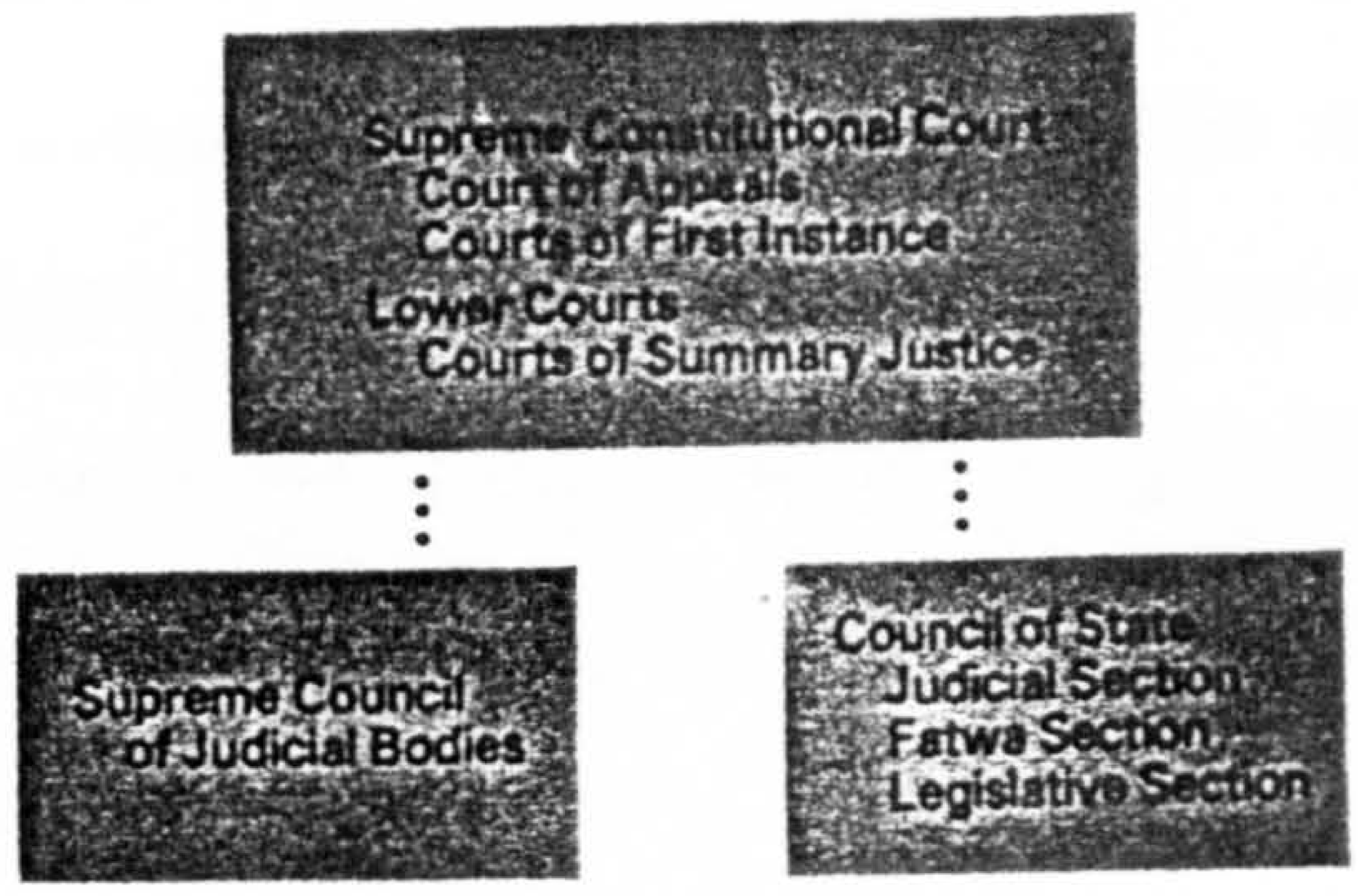
(a) In the manner agreed upon with the investor.

(b) Within the framework of an agreement in force between Egypt and the investor's home country.

(c) Within the framework of the convention of the settlement of investment disputes between the state and the nationals of other states to which Egypt has adhered since 1971.

(d) Arbitration (full arbitration procedures exist should these become necessary).

Chart (C-3) Egypt's judicial structure



Source: Ministry of Information.

Unfortunately, the President in the Egyptian Presidential system is likely to pre-empt the legislative process, because the President exerts a perrogative power - as head of state - over the legislative institutions (people assembly). Thus the problems is that in many cases the presidential decree laws may reflect what the president wants, not what ought to be in strict legal terms. In the meantime, the presidential decree laws hold a special place i.e. they can be issued in the absence of the people's assembly, and when the assembly returns these laws must be considered without amendment. Practices of such a kind may threaten not only the authority of the people's assembly but also the legal environment in general.

In the meantime, one can find numerous areas of bureaucratic paralysis in Egypt (e.g. bureaucratic delays, unclear lines of authority, competing inter-agency interests, centralization of decision making etc.). However, some of the bureaucratic problems - particularly regarding foreign investment - have been removed after the adoption of the open door policy, but the govenrment's ability to honour a higher degree of commitment is still threatened by its inclination towards the centralizaiton of authority and the issuing of laws.

(5) The government's attitude and nationalism policy. The nationalization programmes started in the early 1960s were followed in the mid 1970s by Sadat's ODP, and subsequently by the encouragement of private and foreign investment.

The passage of law 43 of 1974 - concerning the investment of Arab and foreign funds and the free zones - heralded the beginning of a new chapter in Egpytian history. The law offers a broad array of benefits to prospective investors. One of the most important benefits is found in the guarantees against nationalization, confiscation and expropriation which might threaten any foreign investor (more details about this will be mentioned later).

Under the Mubarak presidency, there is no shift in the policy or any drastic changes in regulations which might impede the investment policy. New measures introduced aim to enhance Egypt's investment attractiveness e.g. foreign companies which were previously normally allowed to hold a minority interest in joint venture projects will now be able or allowed to hold a majority share.

Domestically, the government has granted the national investors some incentives which were previously enjoyed only by the foreigners, e.g. tax holidays. Finally, with regard to the nationalized industries (public sector companies) new legislative efforts are now under way to re-structure these industries by means of proposed legislation, designed to put the state sector on a more commercial footing. As mentioned earlier in the Financial Times report of April 7, 1983, the bill proposes a substantial transfer of authority from ministers to the boards of public companies, and management would be able to sack ineffective staff; reduce their workforces, pay bonuses and set wage rates. In addition, the management also will be able to raise money on the markets, and manage their own accounts. In other words, the bill is desigend to equalise management in both public and private sectors.

(6) Defence Policy. The impact of the Egyptian defence policy on economic development can be demonstrated briefly as follows:

(a) The defence burden on the Egyptian economy over the period 1970-1973 increased rapidly from about 19.6% of the country's GNP in 1970 to 31% in 1973 as demonstrated in table (C-25), reflecting, however, the state of war with Israel. After the October war 1973, the percentage decreased drastically both for Egypt and Israel. From a review of investments expenditure in Egypt during the period 1970-73, Table (C-25) The economic burden of defence expenditure in Egypt and Israel.

	Egypt			Israel		
Year	Total spending ($ millions)	Spending per capita ($)	Percentage of GNP	Total spending ($ millions)	Spending *per* capita ($)	Percentage of GNP
1963/64	437	16	8·6	271	109	10·7
1968	690	22	12·5	628	224	15·4
1969	805	24	13·0	829	292	18·0
1970	1262	38	19·6	1429	483	19·9
1971	1495	43	21·7	1484	470	23·6
1972	1510	43	20·2	1262	404	20·9
1973	2757	77	31·0	4153	1310	40·8
1974	3117	111	22·8 (+)	3688	1173	31·8
1975	6103	163	N/A	3552	1045	35·9
1976	4859	128	N/A	4214	1201	36·3

(+) N/A = Not Available.

<u>Source:</u> International Institute of Strategic Studies, the Military Balance, successive issues, 1963/64 - 1976, part 2, table 2, and 3 in each issue. Mentioned in: Rodney Wilson. The Economies of the Middle East, <u>op.cit.</u>, p. 33.

it could be argued that defence expenditure imposed a severe strain on the investment growth, as well as on economic development in general.

(b) After the Camp David Peace Treaty 1977, defence policy was directed at boosting the national economy e.g. as follows:

(1) Armaments sales earned Egypt $1,000 million in 1982 making weapnos the country's most valuable export after petroleum(55).

(2) The army was also engaged in a wide range of non-military activities particularly in agriculture. As Major-General A. Fakhr said "we provide 65% of consumer goods to the armed forces" adding that "the army plans to build 21,000 homes in 1984 and other infrastructural projects"(56).

(7) Foreign policy and international links. The Egyptian experience in this area can be summed up as follows:

(a) The major economic impact of Sadat's foreign policy was the loss of government - to - government aid from the Arab countries as a result of the total boycott when President Sadat signed the Camp-David Peace Treaty with Israel. After the boycott was imposed, trade with the Arab countries slowed to a trickle. According to Egyptian figures, these countries took less than 14% of exports in 1980, their importance as a market for Egyptian products declined still further in 1981, when they took only 5%[57]. Equally, the inflow of investment decreased to a considerable degree as a result.

(b) Until the signing of the Camp-David Peace Treaty, Egypt was a leading member of Arab regional institutions and organizations such as the Arab league, the Arab Monetary fund and the organization of Arab petroleum exporting countries (OAPEC). The treaty resulted in the formal suspension of Egypt from these organizations[58].

(c) Egypt is a member of the IMF. The World Bank also provides substantial funds for development projects and Egpyt has also been receiving assistance from the U.N. through the U.N. development programme (UNDP), the Fund for Population Activities (UNFPA), and the Food and Agriculture Organization (UNIFAO). A new aid agreement with the EEC was signed in May 1982, which makes 'EUA' 276 million (US $284 million) available to Egypt over the five-year period beginning in November 1981[59]. Moreover, - as mentioned before - Egypt receives other substantial aid inflows from a number of other sources (e.g. U.S.) and commercial loans as well.

(d) President Mubarak has adopted a cautious approach to international relations. The good relations developed under President Sadat with the U.S. have been maintained, while links with the U.S.S.R. have been re-established. The government has honoured the conditions of the Camp David agreement with Israel. Relations with the more moderate Arab states have improved markedly recently to the point where a resumption of full diplomatic relations with some countries may be under consideration(60). In general all the adverse results of the boycott are likely to be removed, new efforts are being considered also to reinforce ties with Western European states; and finally Egyptian officials stress the country's non-aligned role, i.e. anti-alliances, especially military alliances.

According to the foregoing information and in the light of the overall environment as outlined earlier, it could be argued that Egypt has achieved a record of relatively high political stability over the past three decades and in particular since 1974. In spite of the riots of 1968, 1977 and the assassination of President Sadat in October 1981, there has been no negative impact or hostile attitude towards business. In other words, as long as the assassination of the state's President resulted in no change in terms of the attitudes towards foreign investment and business i.e. policy reversals in general, there was no cause for alarm. This would only arise if such an event entailed increased risk by having immediate or potential influence upon the MNCs presence and peformance, or bringing in negative changes in attitudes towards foreign firms in general.

The smooth transition of authority to President Mubarak after the assassination of the late President Sadat is obvious evidence of the stability of the Egyptian political environment. The government still continues to welcome foreign investments under the general directions established during the Presidency of Sadat. Two major problems have been identified as a fundamental cause of the country's long-term economic problems, Egypt's population explosion and the government's subsidies policy[61]. These two problems may threaten - to some extent - the political stability of Egypt. The new government is therefore, expected to continue its efforts to promote and encourage the ODP and to re-vitalize both agriculture and industry by removing some of the handicaps which have especially hampered the public sector and many other economic activities.

1.3 The socio-cultural characteristics

Earlier it has been argued that the cultural environment can be characterized by the growth of variability, complexity, heterogeneity, etc. among nations. For the MNCs concerned, the importance of assessing such environment in a certain overseas market is so clear as to require little reiteration.

As the cultural environment is widely divergent throughout the world, as it is possible that one will find their profound differences exist between the Egyptian cultural environment and many others, it may be useful to point out some of the salient features of the Egyptian cultural climate and the related obstacles which may have some influence on FDI activities:-

(1) Education and vocational training. A free education system was established after the July Revolution, 1952. Since then, there have been no restrictions on public access to schooling. So far about 89% of school-age children are enrolled now (of these children whose education is beginning 50% are under four years of age)(62)(63). The latest education statistics providing the number of public school students (at elementary, secondary schools and universities), planned educational enrolment and the annual increase in basic and secondary education are shown in tables (C-26 and C-27), while the full range of general education can be illustrated through Diagram(C-1).

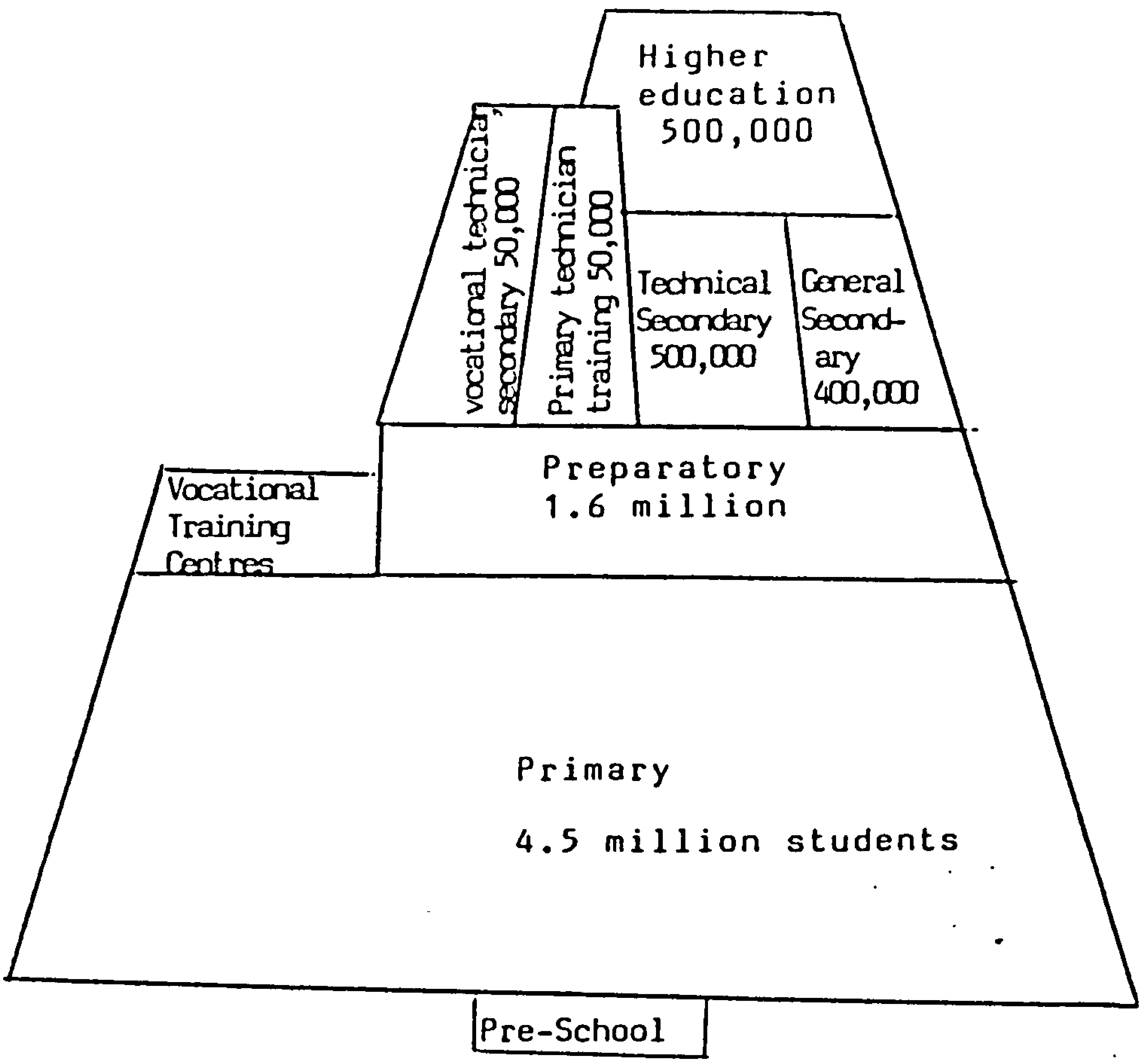
Table C-26 Education statistics in Egypt as of 1981.

Number of public school students at the elementary level	4,884,000
Number of secondary school students (all divisions incl.)	1,350,000
Number of students in universities & higher institutions	530,000
Total University Colleges or faculties(+)	36

(+) Excluded the American university in Cairo, and the new Labour University established 1983, and 88 higher institutions.

Source: Ministry of Information, 1982.

Diagram (C-1) Egypt's public education pyramid - 1983 (+)



(+) Figures are approximate.

Source: Gregory Kats. Education. Cairo Today, February 1983, p. 50.

Table (C-27) Basic and Secondary Educational Enrolment Targets

('000)

	Actuals 1974/75	Actuals 1981/82	Target 1986/87	Annual Increase (%) Achieved to 1981/82	Annual Increase (%) Target to 1986/87
Basic					
Primary	4,075	4,540	5,844	1.6	5.2
Preparatory	1,200	1,571	2,346	3.9	8.3
Total	5,275	6,111	8,190	2.1	6.0
Secondary					
Industrial	99	191	336	10.0	11.9
Agricultural	38	78	125	10.7	9.8
Commercial	213	301	509	5.1	11.1
Sub total technical	350	570	970	7.2	11.2
General	340	401	579	2.4	7.6
Teacher training	33	57	82	7.9	7.5
Total	723	1,028	1,631	5.2	9.7

Sources: FYP and Ministry of Education, in C. Daniels. Eygpt in the 1980s, op.cit., p.217.

The literacy rate reported earlier reached 54.3% in 1980. In 1983 the national expenditure on education accounted for 18.5% of the state services budget, i.e. about 5% of the country's GNP(64). In addition, there are several primary and secondary schools in the Cairo and Alexandria areas which offer American, French and German languages, besides the British, French, American and German cultural centres located in the major cities.

As to vocational training, the Egyptian education law requires that all secondary schools teach some vocational and practical skills. The recent and predicted trends in this respect could be summed up as follows:(65)

(a) About 280 schools added some vocational field to the normal academic program. The Ministries of culture; industry, public health, building and construction; and the Ministry of Defence have established their own training centres, and each public enterprise has its own trianing centres as well.

(b) In 1983, the target of Mohar Training Agency project ("MTAP" is partly funded by the World Bank, and the British Overseas Development Ministry "BODM" runs a management and supervisory development project, while UNESCO has established a technical teacher training institute).

(c) The World Bank has approved a $38 million, 20-year loan for a programme to provide vocational training centres and instructors. The loan is part of a $79.3 million training scheme to help to ease the acute shortage of skilled labour in the construction and industrial sectors "660 instructors will be provided by the World Bank".

(d) By 1992 about 18000 Egyptians will be trained annually in construction trades at 22 planned training centres" 12% are expected to be women".

(e) Many regional industrial training centres will be upgraded and new centres will be built up in new regional places.

(f) Countries such as: USA, UK, W. Germany, France and Sweden are likely to be invited to provide technical assistance in the Training Programme - and already the British Council "BC" has been involved in four World Bank educational projects, and officials have expressed interest in these new projects.

Eventually, althoguh the Egyptian education system, the vocational system, and missions abruad, etc., have added a tangible thrust to technological development, it could be argued that the technological links between the universities and other scientific institutions on the one hand and the productive sectors on the other, have not yet been established as fully as they should be.

(2) Management. One of the most striking developments during Sadat's Presidency was the reduction to only a few of the number of army officers who were government ministers, and the military presence was also rooted out of the Cabinet, (the number of officers in ministerial positions during Nasser's period amounted to 27, while the number was 9 during the early Presidency of Sadat[66]. The chance, however, was given to the Egyptian manager - who was the victim of Nasser's militarised management - to run the states' enterprises and to master the economic plans. Bureaucratic delays, lack of co-ordination between various government agencies, continuous changes of laws and procedures, inability to honour important undertakings, etc. are therefore the inherited problems of that era.

Yet, there are three points which may have particular interest for foreign investors. First, the characteristcs of the Egyptian manager; second, the main defects of this manager; and the structure of managerial authority in the Egyptian organizations:

(1) The major characteristics of the Egyptian manager: can be summarised as follows:(67),(68)

(a) The Egyptian managers are almost all very able and gifted at conducting the informal and personal side of the business, they understand quickly the subtle nuances of favour and disfavour that are expressed in a smile, a handshake or a greeting. These non-verbal expressions, which are seldom shown directly, are the coded messages that most Egyptian managers understand and communicate effectively.

(b) The Egpytian managers also possess impressive survival skills.. A successful Egyptian manager is one who has probably not only experienced a period of foreign domination, either directly or as lessons passed down from a preceding generation, but has also lived through major revolutionary changes in his own government.

(c) In sum, they are highly intuitive, able to operate within a confusing, complex and changing interpersonal environment and much better than many managers in the western world.

One should not forget their role as leaders in society, they are an elite class not simply because of birth or wealth, but also because of their unique position as those who control and direct the energies of the hard-working people of Egypt. Although this may not always be true in other countries, in Egypt this group has a certain loyalty and dedication to their homeland; and they are actively looking for help and search out training and development opportunities for themselves and others:

(2) In spite of the above characteristics, the Egyptian manager, like any manager throughout the Western world who has highly developed personal skills - often lacks the more rational planning and analytical skills. The prime concern, however, of the Egyptian government as well as the Egyptian public and private enterprises is to do its best to devote more attention to managerial development programmes, either locally or abroad.

(3) The structure of authority in the Egyptian enterprises. The Egyptian organization in general has been influenced considerably in this area by its western counterparts. the gamut of authority is designed in the form of a pyramid. Relatively more authority is vested towards the top, than at the bottom.

(3) <u>Language</u>. The official language is Arabic, but English and French are widely used both on the international commercial and diplomatic scenes and at every level of the educational system. Egypt is one of the most linguistically homogeneous nations.

(4) <u>Religion and attitudinal values</u>. About 90% of the Egyptian people are Muslims and the practice of this religion is widley observed. Of the remainder, about 7% are coptic christians, living mainly in the cities and towns, particularly those of Upper Egypt. Other Christian denominations, mainly orthodox, Roman Catholic and Anglican, account for about 1% of the population. There is still a Jewish community, but its number is insignificant. In general freedom of worship is allowed[69]. Accordingly, Egypt has a higher degree of religious homogeneity than other nations throughout the World, e.g. India and Japan. This homogeneity may ensure a considerable degree of stability in the social environment.

In terms of the attitudinal values, personal aspirations, family role, etc., there is no doubt that Egypt is heavily influenced by the Islamic religion, but not to the extent that it has a serious impact upon economic development, attitudes toward work, etc. Indeed, food like pork is strictly prohibited, but there is nothing in the "Quraan" to justify the rejection of work or technology.

One Islamic Moroccan scholar has written in an Egyptian journal arguing that technology is neutral, neither good nor evil in itself. A good Muslim, he writes, does not reject technology.

"Rejection does not fit Islam, because Islam made man God's successor on earth. The instruments of technology are extension of the organs of man. To refuse technology is to let down the future generation that is threatened with deprivation. To turn down technology is to fail to show mercy, which is one of the pillar of Islam.. there is no choice but to accept the challenge and meet it in the best possible way. There is not in the "Quraan" one suarh, there is not one saying by our great prophet that justifies the rejection of technology" Islam, he concludes, "urges the development of technology to liberate man, not to enslave him"[70].

(5) Transportation and Communications[*]. Despite the deficiencies of Egypt's transport and communications system which constitute the main chronic problem affecting the development programmes, the country enjoys a variety of transportation networks, e.g. marine transport, airline transport, river transport, road and railway networks. Investment and new programmes are under way to develop the transportation and communication networks in Egypt,e.g.[71]:-

(a) About 17% of allocations under the new five-year plan (almost 6 LE billion) is devoted to this sector;

(b) a number of projects have been undertakne to improve the 56,000 miles road network.

(*) See data on infrastructural facilities in Egypt compared with the Middle Eastern countries in chapter (1), Section (B).

(c) The railway network is currently being modernized after a long period of neglect.

(d) Programmes are underway to expand both Mediterranean and Red Sea prot capacities to cope with the increased traffic passing through the Suez Canal.

(e) New Ports at Dekheila, Mersa Matruh and Damietta, and new projects to expand the port of Safaga on the Red Sea are being considered after a long period of neglect.

(f) River transport is being expanded to relieve the pressures of inland transport on the roads and railways.

(g) Work is still underway on a much needed overhauling of the telephone network begun in 1979; and new telex systems are also being built in Cairo and Alexandria, which will greatly increase the capacity of the telecommunications system. But the relatively most successful story of improvement is in terms of the international communications network which has been recently developed considerably.

(h) A variety of highways - e.g.between Cairo, Port Said, and Alexandria - are planned. Construction of the Ahmed Hamdi tunnel under the Suez Canal was finished in 1981. Also, the government has taken steps to relieve traffic congestion in the centre of Cairo by approving the construction of an underground system (300 million LE).

(i) A new international airport is being established in Alexandria, besides the internal airports (in Aswan, Luxor, Alexandria, El-Arish, Sinai, etc.) which are being developed.

(6) Information and Media[72].

Egypt enjoys a free press which allows for multi-views, as a reflection of a sound democratic life. This gives the opposition the opportunity to paly an important role in political life, permitting the expression of opinion and counter-opinion. Many newspapers and periodicals are published in Egypt. Newspapers are not printed in the Arabic language alone, but have diversified into several languages to facilitate the spread of information and ideas from Egypt to different parts of the world, as well as to adjusting to identifiable commercial needs.

The major newspapers and magazines published in Egypt according to 1980-81 statistics are given in Table (C-28).

Concerning radio and tv, Table (C-29) shows the average hours of daily radio transmission and daily tv broadcasts[*]. Egypt has also made ties throughout the world, establishing a broadcasting network with 24hour-a-day stations that reach all levels of modern society. Special attention has been given to local and regional broadcasts, which cater for particular sectors of the different communities throughout Egypt.

Since television transmission began in 1960, it has been constantly developing. It has changed over from

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(*) See Chapter (1), Section B, for statistical data on Egypt.

black and white to colour transmission, and now has two channels so that each one can present particular ideas and programmes.

Table C-28 Distribution, audience of newspapers and magazines (quantities & location) 1980-1981.

Distribution	Quant.
Daily	20
Weekly	35
Periodicals	120
	175

Language	Quant.
Arabic	151
English	10
French	5
Greek	3
American	5
German	1
	175

Audience	Quant.
Political	40
Economic	30
Cultural	39
Scientific	11
Sports	10
Women	3
Religion	37
Arts	5
	175

Location	Quant.
Cairo	135
Alexandria	12
Other Governorates	28
	175

Source: Ministry of Information, 1982.

Egypt has also caught up with world events through the use of satellites. A ground network has been set up for the relay of important events live to and from Egypt.

To increase media effectiveness, a number of media and cultural agreements have been made with many countries of the world.

There are various programmes, such as recreational, religious, informational, commercial, etc.

Table (C-29) Daily Radio transmissions and Daily Television Broadcasts, 1980/81

		Average Hours
(1)	Radio:	
	General Program	20
	Ma'Esh-Sha'ab (with the people)	9
	Sout El-Arab (voice of the Arabs)	20
	Second Program	4
	European Program	15
	Rukn Es-Sudan (Sudan Corner)	7
	Alexandria	9
	Short-wave programs	49
	The Quran	18
	The Middle East	14
	Music Program	12
	Palestine	5
	Youth	2
(2)	Daily Television Broadcasts: (Average Hours)	
	Channel One	13
	Channel Two	11

Source: Ibid.

(7) Energy: Sources and Consumption. Energy production in Egypt relies on two sources, water and oil. The High Dam at Aswan in Egypt's most important generator of electric power. The use of electricity and natural gas in Egypt has expanded considerably over the past decade. Electricity became available in most rural areas (about 3,500 villages) by 1980, with about 538 more villages expected to have electricity by the end of 1983. By then , electricity will have been provided to the entire country[73]. The natural gas network will have covered most districts in Cairo and Giza (25% of the population by the end of 1983).

Nuclear power plants are expected to contribute 35% of generated electricity by tye year 2000. Also, a feasability study is currently being undertaken on the Qattara Depression Scheme[74].

In general, the following tables will explore the major trends regarding energy production and consumption in Egpyt:

(a) Oil and gas output 1979-1987 (Table C-30).
(b) Planned development in the electricity sector, 1980-2000 Table (C-31).
(c) Petroleum consumption, 1970-1982, (Table C-32).
(d) The evolution of domestic output and consumption of electricity, 1973-1982 (Table C-33).

Table (C-30) Egypt: Oil and Gas output 1979-1987. (Million tons).

	Crude OIl	Consdensate	Gas	LPG
1979	26.31	0.16	0.86	0.04
1970	29.4	0.31	1.62	0.066
1981-82	31.76	0.32	1.84	0.073
1982-83 est*	37.0	0.46	2.77	0.17
1983/84 est.	41.68	1.05	4.2	0.36
1984/85 est.	44.13	1.54	6.37	0.63
1985/86 est.	48.78	1.71	6.61	0.66
1986/87 est.	50.31	1.8	7.42	0.68

* Estimated.

Source: The Egyptian General Petroleum Corporation (EGPC), 1982.

Table (C-31) Planned development in electricity sector 1980-2000

	1980	1985	1990	2000
Consumption per capita (Kwh)	400	700	1000	1600
Electricity generated (Kwh billions)	19	32	52	101
Installed capacity (MW)	4500	7000	10000	22000

Source: Lloyds Bank Group Economic Report, 1982, p.13.

Table (C-32) Petrol Consumption (Metric tons in thousands)

Year	Natural Gas	Butane	Gasoline	Kerosine	Gas Oil	Fuel Oil	Lubs. Asphalt	Total
1970	-	108	444	820	1176	3005	297	5850
1975	33	179	656	1188	1335	3639	231	7261
1979	852	339	1041	1486	2040	4840	571	11139
1980	1616	382	1158	1503	2280	5172	397	12490
1981	1826	437	1275	1616	2874	5858	410	14298
1982	-	450	1415	1745	3632	7334	-	-

Source: EGPC.

Table (C-33) Output and consumption of electricity.

(1) Output of electricity - Peak load, 1973, 1978-81/82.

Output (gwh)	1973	1978	1979	1980	1980/81	1981/82[a]
Hydro	5,155	9,935	9,701	9,801	9,905	9,925
Thermal	2,280	5,140	6,755	8,629	9,377	11,458
Total	7,435	15,075	16,456	18,430	19,282	21,383
(% thermal)	(30.7)	(34.1)	(41.0)	(46.8)	(48.6)	(53.6)
Peak load (mw)	1,248	2,597	2,829	3,239	3,260	3,665

(2) Electricity Consumption by End User, 1973 and 1978-1980 (gwh)

	1973	(Share) (%)	1978	1979	1980	1980 (Share) (%)
Agriculture & irrigation	685	(11.1)	697	720	760	(4.5)
Industry	3,349	(54.3)	7,553	7,800	10,250	(61.2)
City councils	825	(13.3)	2,197	2,670	2,940	(17.6)
Household lighting	658	(10.6)	1,348	1,570	1,795	(10.8)
Public utilities	459	(7.4)	579	580	610	(3.6)
Government authorities	203	(3.3)	349	360	390	(2.3)
	6,178		12,723	13,700	16,745	(100.0)

(a) Provisional.

Source: PYP, in C. Daniels, Egypt in the 1980s, op.cit., p.151.

In addition, more immediate plans are underway for the sector of electricity and power including the construction of new substations, the lengthening of transmission lines, and the completion of the electrification of rural areas, to hasten the development of local agro-industry, raise living standards and provide electricity supplies for public transportation projects in the country.

(8) Urbanization and density of population. As already stated, Egypt is a highly urbanized country compared with many Third World countries. More than 25% of the total population i.e. about 12 million inhabitants for example, live in two cities, Cairo and Alexandria. The percentage of urbanization in Egypt is over 26% (while in Nigeria for example it is 5.3% in Brazil 25.6%, in Spain 27.9%, in Mexico 18.6% and in Sudan 2.7%)[75].

Egypt has also established satellite cities in a number of areas. These towns (e.g. Nasr City near Cairo; north of Ramadan city near Ismailia; 6th of October city near the pyramids, and Sadat City on the desert road to Alexandria) are designed to provide convenient sites for the location of new ventures, and to encourage more balance in the distribution of productive facilities.

(9) Health Services. The official figures for the number of hospital beds show an increase of 120% between 1952 and 1975, equivalent to an average growth rate of 3.5% a year.

Between 1975 and 1981 there was a further rise of nearly 10% a year. Of the 6,800 beds added in six years, over half (3,600) were in Ministry of Health hospitals; the fastest growth, however, was in non-government services. The number of doctors is put at 91,900 which works out at one per 473 inhabitants. Available hospital beds given a ratio of 1.97 per 1,000 of the population[76]. In short Table (C-34) shows the total number of beds in the hospitals, their distribution, etc. Table (C-35) displays the Five Year Plan targets for the health sector in general.(*)

Moreover, special attention is paid by the government to the social security and other associated services. At the end of 1982, about 25 million of the population were enrolled underthe social security umbrella.

Investment in social security in 1981/82 totalled $5,834.3 million. This figure is to be increased according to the Five Year Plan estimates and targets[77]. Finally, after a long period of neglect, the government has devoted a great deal of attention to the serious effects of industrial pollution on the quality of the environment.

1.4 The critical features of the Egyptian Economy:Summary

The analysis made in this chapter has concentrated on the salient locational factors (characteristic and constraints) which may influence FDI decision or the entry of MNCs and their potential contribution to rapid economic and social progressin Egypt.

In short, the main conclusion may be that there is

(*) For these tables see following page.

Table (C-34) Number of hospital beds and their distribution in Egypt.

1981

Hospitals

In 1981 there were a total of 84,163 hospital beds in Egypt. These were distributed as follows:

Ministry of Health	55,327
University Hospitals	10,540
Institutes and Educational Hospitals	3,478
Other Ministries	1,781
Public Sector	8,228
Private Sector	4,809

Number of General & Specialised Hospitals in 1981

Hospital type		Amount
General and Central Hospitals		172
Eye:	Hospitals	30
	Branch Units	135
	Independent Clinics	4
Psychiatric:	Hospitals	9
	Branch Units	20
	Independent Clinics	5
Hospitals for the treatment of endemic diseases		169
Chest Hospitals with out-patient Clinics		30
Chest Hospitals without out-patient Clinics		5
School Health Units		266

Source: Ministry of Health.

Table (C-35) Five Year Plan targets for health sectors 1982/83 - 1986/87.

Hospital Beds

Year	Number of Beds	Population 1000's	Av Number of Beds per 1000 persons
1981/82	84,000	42,615	1.97
1982/83	84,300	43,808	1.92
1983/84	85,350	45,035	1.89
1984/85	86,470	46,296	1.87
1985/86	87,750	47,532	1.85
1986/87	88,000	48,843	1.80

Health Personnel under the Five Year Plan

Year	Physicians	Dentists	Pharmacists	Staff Nurses	Physio-therapists	TOTAL 1000's
1981/82	62.9	8.4	17.1	2.1	1.4	91.9
1982/83	67.9	9.3	18.3	2.2	1.7	99.4
1983/84	73.3	10.1	19.6	2.4	2.0	107.4
1984/85	78.9	11.1	20.6	2.5	2.3	115.7
1985/86	85.9	12.0	22.3	2.7	2.7	125.7
1986/87	92.9	13.1	23.7	2.8	3.1	135.6

Source: Ministry of Health.

a significant improvement in many aspects of the Egyptian Investment climate. Egypt has various unique characteristics or endowments i.e. several aspects in the Egyptian market are or may become attractive features for the MNCs (e.g. the existence of big markets, abundant raw material and natural resources, cheap labour, strategic location in a region of tremendous wealth together with proximity to European, Arabian, Middle Eastern and African Markets, etc.).

At the same time, it has to be noted that the main attractions for one MNC may not necessarily be the same for another quite apart from the possible similarity between the two companies in terms of their objectives and motives. It would, however, be appropriate to argue that a MNC when it is assessing an overseas market usually tries to ascertain facts about the deficiencies and negative aspects in that market. Broadly speaking, it is possible to detect the critical state of the Egyptian economy from the following features and problems which are typical of those encountered in most developing countries:

1. Shortage of foreign exchange, a severe foreign debt burden and a balance of payments deficit (increase of imports with decrease in exports and hence an unbalanced current trade account).
2. A high inflation growth rate combined with an extensive subsidy system and price control/regulations.
3. A marked tendency to import consumption goods due to the failure of the commodity sectors (agriculture and industry) to cope with and respond to the pattern and volume of domestic demand and needs.

4. A low literacy level (54.3%).
5. A shortage of particular skills and managerial know-how due to increased emigration of the Egyptians to the Arab-oil exporting countries, weak linkages between the universities and the education system in broad terms and the real requirements of the economy shortages and inefficient training programmes, etc.
6. Infrastructural bottlenecks, despite the recnet improvements.
7. Bureaucratic and organizational deficiencies particularly in the state-owned enterprises and government agencies.

Finally, although one cannot ignore the significant improvement in the Egyptian economy as a whole, at the same time MNCs should appreciate the kind of problems listed above which they plan to operate in Egypt.

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CHAPTER 2

FDI IN EGYPT: FLOWS AND IMPACT

Introduction

The main objective of the present chapter is to underline both the impact of FDI on the Egyptian economy since 1974, and the barriers to its contribution in general.

Initially, Egypt has expected much of the solution to its economic and social problems on the success of the 1974 ODP. As demonstrated earlier, problems such as the severe external debt burden, deficit in the balance of payments, shortages of foreign exchange because of the high propensity to import consumption goods, the failure of commodity sectors (agriculture and industry) to respond to the domestic needs or demand, etc. probably obliged the government to seek foreign exchange, technology, etc. ie. MNCs participation to solve these problems.

It has been argued also that the foreign aid sought for these problems from the U.S. and from Arab oil-exporting states would not be enough. FDI however considered as playing an important role in solving Egypt's problems[1].

In sum, MNCs have been seen as providers of technology, purveyors of capital, and so forth. Egypt in particular has looked to these companies to help in financing foreign exchange, increasing industrial outputs and creating enough new jobs (since Egypt's population boom means swelling unemployment very quickly). Egypt with its strong local market, strategic location and prestige among the

Middle Eastern and Arabic countries is also ambitious to become the region's industrial and commercial base. The possible contribution of MNCs has been considered as being of special importance in accomplishing such objectives.

2.1 The Benefits and costs of FDI in Egypt

Broadly speaking, to accomplish the above objectives the ODP towards FDI in Egypt has been arguably based on an assumption that Economic and social development = Arab and foreign capital + western technology + private sector effective participation + rational exploitation of the abundant raw materials and natural resources and endowments.

It has been suggested if the government's ODP is to suceed, the state intervention must be reduced by removing political inputs from economic decisions, in order to liberalize the economy.

It is nevertheless argued that FDI has rarely been of great importance in bringing in foreign capital and technology and creating enough jobs. In other words, it has been believed that FDI will take more than it gives, if the Egyptian government fails to put its house in order and remove all bureaucratic burdens, to direct more efficiently incoming FDI projects, etc. Politicians, scholars among them many economists, with ex-colonial experience have seen FDI as a new phase of imperialism.

The argument for and against the ODP toward FDI is perhaps interesting. Examples of views on the ODP impact on the Egyptian economy can be summarised as foolows: (1) Cooper[2], has argued that "until the end of 1977, economic liberalization was an utter disaster. It produced none of the benefits that the government had projected and almost every one of the negative impacts that the left had predicted. On the side of production and investment, there was a deindustrialization of Egypt - literally, a shrinking of industrial activity as a percentage of economic activity"[3].

As shown in exhibit (C-1) the ODP undermines social equity, permits foreigners to bid for labour from the public sector, etc. At the same time there are several expected benefits which can be gained by Egypt in the area of finance, technology, etc.[*]

(2) An Egyptian Journal called Al-Iqtisadi (ie. the Economist) on 15 November 1976 reported that the squares of Cairo were transformed into an exhibition of imported goods, and the consumption liberalization, and what it entails in the way of an explosive inflation, has changed the structure of Egyptian society"[4].

(3) Carr[5], has argued that the recent growth surge in Egypt since 1973 is due to FDI and other generous assistance by foreign governments and international organizations. The ODP of the Egyptian government toward FDI, domestic investors and the ensuing revival of private enterprise activity can certainly take much credit for the economic growth in Egypt during the 1970s (the average rate

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(*) See next page.

Exhibit (C-1) The costs and benefits of government policy choices in the Economic Liberalization.

	Benefits (Govt. claims for the policy)		Costs (Leftist critique of the pol.)	
Policy Areas & Choices	Domestic	Foreign	Domestic	Foreign
Technology permit less than the most advanced technology	More investment stimulated More employment created.	High profits based on wage differential. Egypt's labour and infrastructure are suited to less than advanced technology projects.	Failure of long term industrialization Dumping of used and dated equipment on the local market.	
Extend incentives to Egyptians	Stimulates more investment; repatriates Egyptian capital from abroad.		Undermines social equity of state capitalist regime, loss of state revenues.	Egyptians will flood the market blocking out foreign projects.
Finance Open local banking	Spillovers from a financial centre.	Integrated banking attracts capital	Foreign banks tax local infrastructure and squeeze our local institutions	
Revived stock market; eased repatriation of profits freedcurrency; tax incentives.	Stimulates economic activity	High profits	Loss of control over capital and currency	
Labour Free the movement of labour	Rationalize the distribution of labour	Appropriate labour attracted to projects will increase productivity.	Internal migration of foreign projects saps the public sector. External migration creates a shortage of skilled labour.	

Source: M.N. Cooper, The Transformation of Egypt, <u>op.cit.</u>, pp. 92-93.

of growth experienced in the Egyptian economy during 1975-77 of over 8% annually is higher than the 6.7% annual average experienced from 1956-1965)[6].

(4) El Haddad[7], after a study of the relationship between marketing and economic growth in Egypt, has stated that (a) the project formed under the ODP statement were directed to consumer goods rather than industrial goods, (b) the new firms have attracted the most experienced skills in marketing and other areas through higher wages and incentives schemes; and (c) the result of providing privileges and incentives to the foreign firms, as well as importing their products have a harmful effect on the sales of domestic products. At the same time it has led - to some extent - to the increase in the marketing loads such as promotion, distribution efforts and so forth.

5) Additionally, graph (C-7) which is self explanatory summarises the macro-economic outcome of the ODP in terms of total investment, trade, public and private consumption,e tc. As the graph reveals, it is clear that the ODP creates marked trade and savings gaps despite the apparent increase in investment and decrease in public consumption.(*)

6) Finally, Yousif and Shalaby[8], have argued that foreign investment will create the dependence of the industrial strategies of Egypt on foreign nations and it will also weaken the local ability to innovate solutions for local problems. Above all the ODP will lead the country

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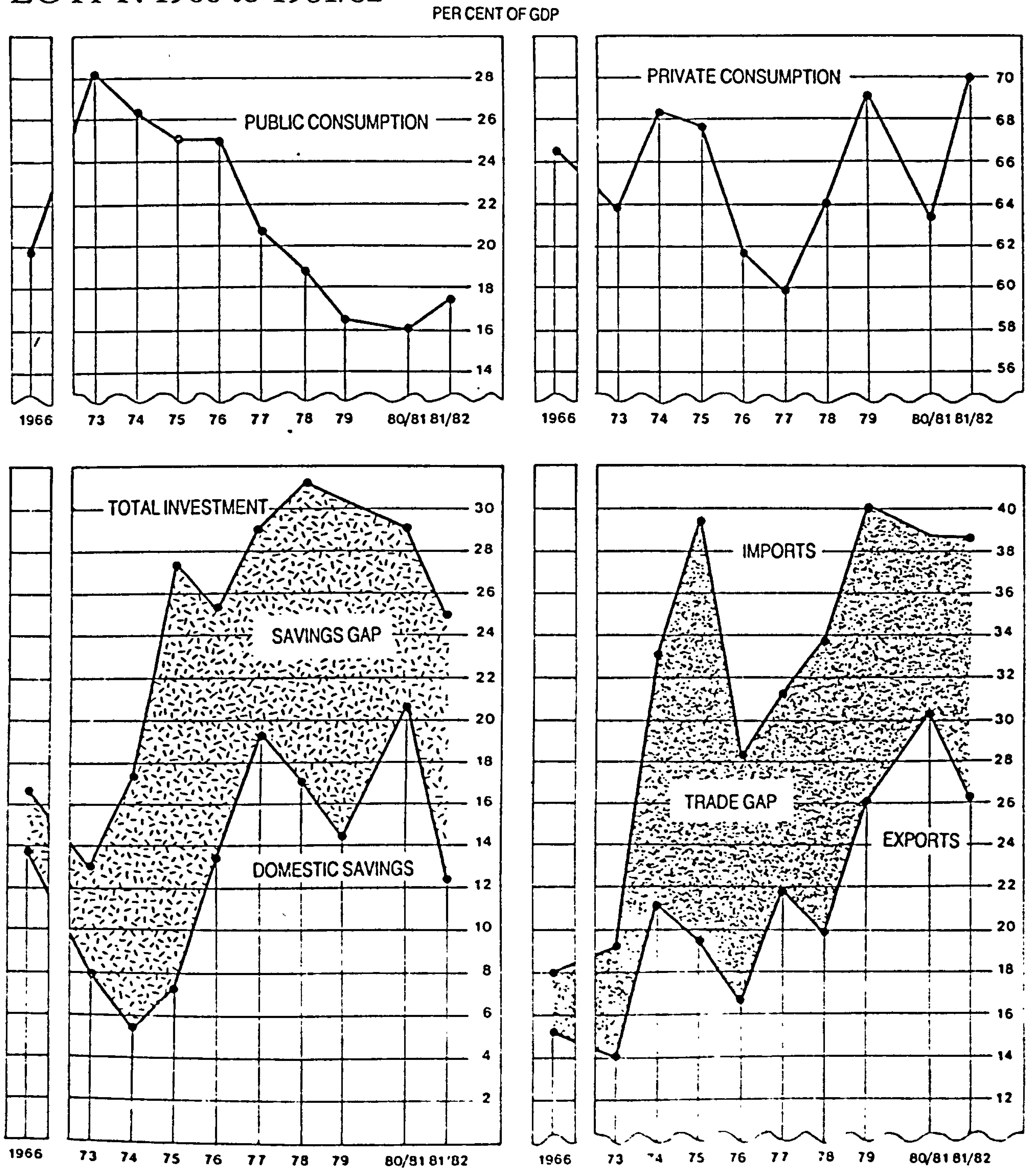
(*) For graph (C-7) see following page.

Graph (C-7)

The Macroeconomic Outcome of the Open Door

EGYPT: 1966 to 1981/82



Source: C. Daniels, Egypt in the 1980s, op.cit., p.50.

away from planned development, and create negative effects on the consumption style in addition to the burdens on the balance of payments as a result of the repatriation of profits.

Taking into account the previous discussion with respect to FDI impact which has been considered in detail. As already stated the prime objective of the present chapter is to analyse the cost and benefits of FDI in Egypt on an empirical basis as follows:

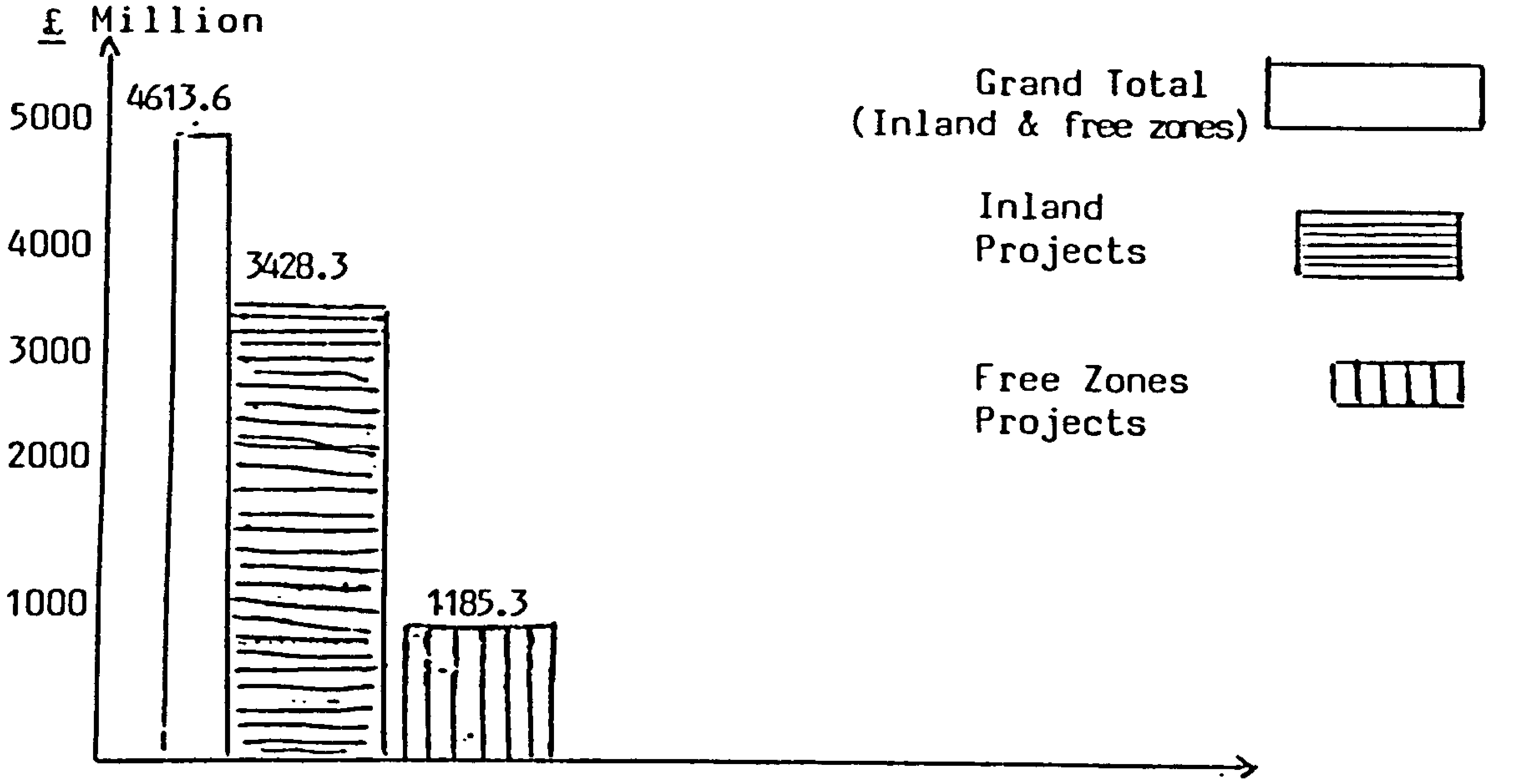
(1) Resource Transfer effects. As argued earlier, any review and analysis of FDI contribution to an economy may encounter formidable statistical and definitional difficulties. Shortage of data and statistical coverage of FDI with respect to its inflow, distribution, allocation, etc. combined with ineffective statistical sytems and bureaucratic issues in a country like Eygpt may make it difficult to get clear and sufficinet statistical evidence of FDI impact. Furthermore, the close relationships between direct and indirect influences of FDI on the host country's economic and social development - as demonstrated earlier - is also a great obstacle to assessing the consequences of FDI.

With these limitations in mind, it could be stated that some of the first-order consequences of FDI in Egypt can be demonstrated by means of the following review of the most available data:-

1) The provision of capital. It has been argued that the inflow of foreign capital will probably cause some positive effects such as: (a) improving the balance of payments, (b) facilitating the use of local resources, (c) providing access to export markets, etc. If this is accepted, it is possible that Egypt has gained one or more of these kinds of benefit. The statistical record of foreign investment projects approved, in operation and under implementation provide evidnece to suggest that:
(1) Foreign capital participation and inflow of approved investment projects totalled LE 4613.6 million in 1983 as shown in graph (C-8).
(2) Total foreign capital inflow in projects in operation and under implementation as presented in graph (C-9) accounted for LE 1645.5 and 901.9 respectively in 1983. While the trend of the number of approved foreign investment projects since 1975 up to March 1985 is portrayed in graph (C-10).

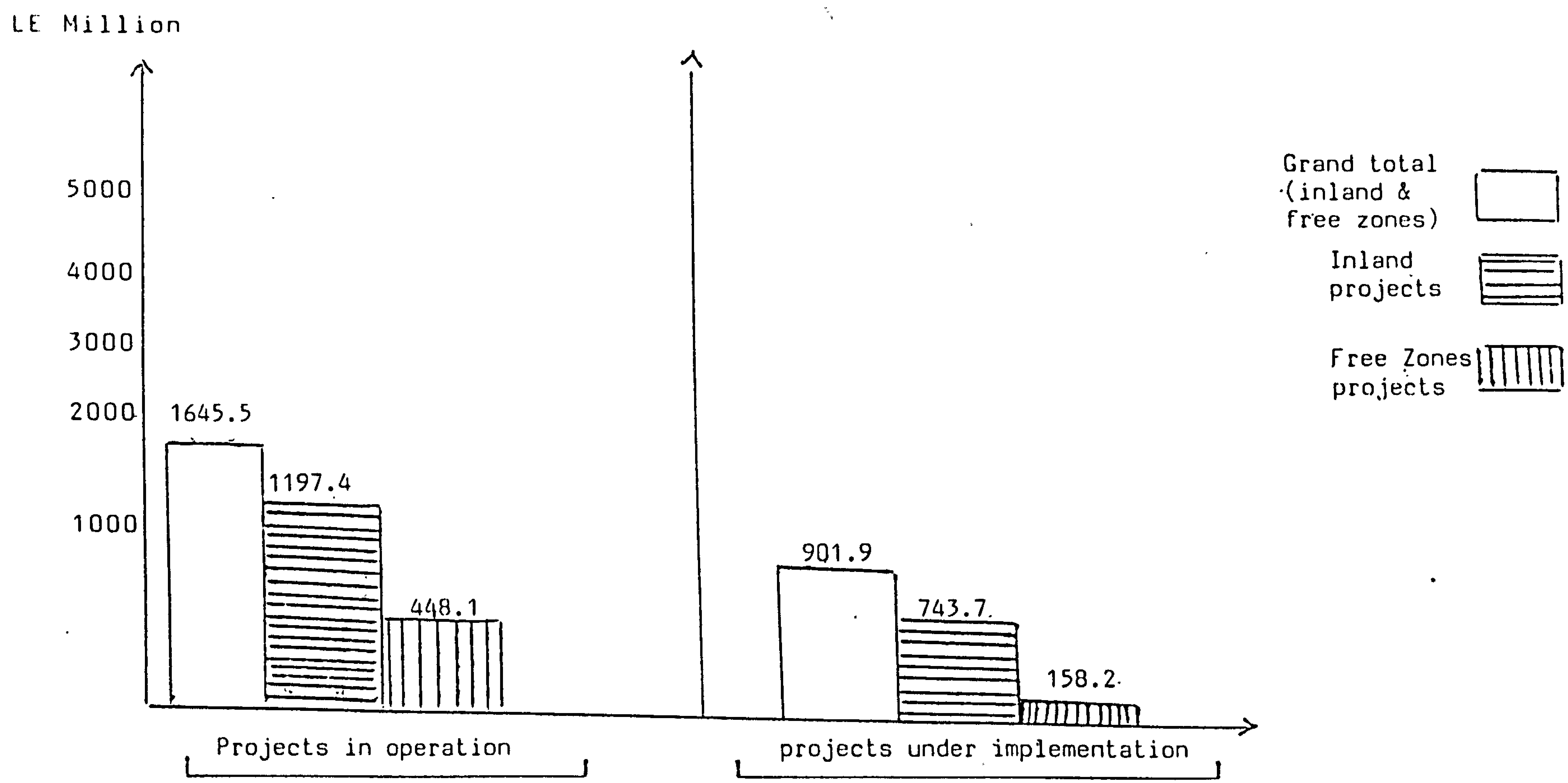
Perhaps the trends of approved projects as shown in graph (C-10) may give rise to the question, why the fall-off after 1981, particularly ? It could be argued that the Arab boycott following the 1977 Peace Treaty with Israel had some effect on the inflow of Arab funds (as well as the Egyptian trade), despite the continued growth of the number of projects approved which is partly due to development of the relationship between Egypt and the U.S. and other European countries. But the most significant reason is

Graph (C-8) Foreign capital-approved projects up to 31.12.1983.



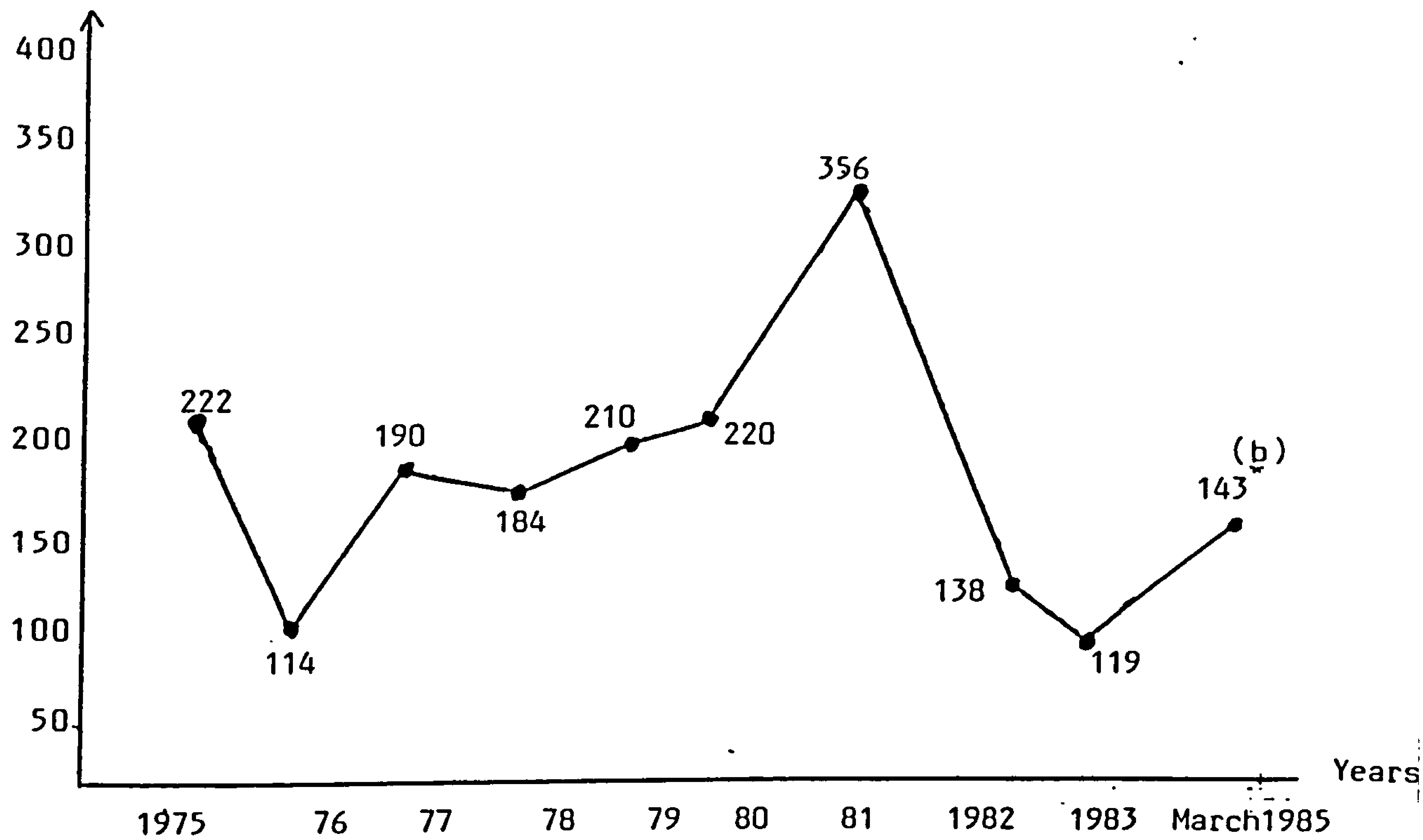
Source: Based on table no. (7) - appendix (A).

Graph (C-9) Foreign capital inflow: projects in operation and others under implementation - 31.12.1983.



Source: Based on tables (8) and (9) - Appendix (A).

<u>Graph (C-10)</u> Number of approved foreign investment projects - 1975 up to March 1985 under law 43/1974(A)



<u>Source:</u> Constructed by the researcher on the basis of (a) GAFI's statistics Bulletin, December 1982 and 1983. (b) EBCC, <u>Information Bulletin</u>, No. 57, May 1985, p.1

probably that the assassination of President Sadat in October 1981 enhanced the risk of policy reversals under the new regime. Concern about this risk continued until 1983.

According to the EBCC's information Bulletin - May 1985 - the Minister of Economy announced that the investment project which were approved to operate in Egypt totalled 1667 up to March 1985. The total investment of these projects amounted to LE 5804.5 mn).

3) The distribution of invested capital of the approved projects and projects in operation and under implementation by type of activity, nations, etc. is presented in tables (C-36) and (C-37).

From table (C-36), the following factor can be derived:

(a) Foreign capital participation/total capital inland:

1. Inland approved projects = 59.6%
2. Projects in operation = 55.8%
3. Projects under implementation = 56.9%

(b) Foreign Capital participation (Free Zones):

1. Approved projects = 99%
2. Projects in operation = 99%
3. Projects under implementation = 100%

(c) Foreign capital participation in relation to the planned total investment costs of the projects (inland):

(*) For tables (C-36) and (C-37) see following pages.

Table (C-36) Distribution of investment projects by type of activities, nationality of investors, 1974 up to 31.12.1983.

(Value in L£ 1000)

	Local	Foreign	Number of Project	Total Capital permitted or paid	Planned total investment cost
Approved Inland Projects					
Industrial	824023	1011445	533	1835968	4957516
Financial	811254	1381332	306	2192086	2347077
Agriculture	147798	120439	109	268237	601889
Construction	196605	204912	1983	401517	940069
Services	341873	710189	251	1052062	2028212
Total	2322053	3428317	1392	5750370	10874763
Projection Operation:					
Industrial	204911	274200	248	479111	1039236
Financial	508269	640693	155	1148962	1267105
Agricultural	74217	50057	38	124274	275129
Construction	39386	58646	91	98032	283782
Services	121396	173897	118	295293	603579
Total	948179	1197493	650	2145673	3468879
Projects under implementation:					
Industrial	296419	280615	132	577034	1812002
Financial	93428	89089	62	182517	188817
Agriculture	15660	16208	15	31868	76154
Construction	28595	83005	47	141600	363360
Services	97784	274763	64	372546	771615
Total	561880	743680	320	1305565	3211948
Free Zones (*)					
Approved projects	7802	1185265	340	1193067	1502426
Proj. in operation	4022	448109	252	452131	644161
Projects under implementation	-	158150	46	158150	186014

(*) Public and private free zones.

Source: Based on tables (7), (8) and (9) Appendix (A) and see also table (6) in the same appendix.

Table (C-37) Distribution of foreign capital of the approved inland and free zones projects by nations and types of projects' activities up to 31.12.1983.

(Value in £E 1,000)

Type of Activities	Arabic Countries Share	%	U.S.A. Share	%	E E C Share	%	Others Share	%
I. Inland								
Industrial projects	139114	7	71180	4	139309	8	94503	5
Investment projects and banks	835192	38	19790	1	71860	3	56751	3
Agricultural projects (including husbandry, reclamation, poultry, fish farming, etc).	25502	10	6228	2	11387	4	7504	3
Construction and contracting projects	79317	20	2374	1	21430	5	7347	2
Services projects	239556	23	129742	12	51003	5	39375	4
Grand Total	1318681	23	229319	4	294989	5	205480	4
II. Free Zones								
(1) Public	67731				81658(*)			
(2) Private	631264				128383(*)			
Grand Total	698995				210041			

Source: GAFI, statistical report for the approved projects, 1983.

1. Approved projects = 31.5%
2. projects in operation = 34.5%
3. projects under implementation = 23%

(d) Foreign capital participation in relation to the total costs of investment projects (Free Zones):

1. approved projects = 78.9%
2. projects in operation = 69.6%
3. projects under implementation = 85%

According to table (C-37), it is apparent that the Egyptian capital participation in the approved projects up to 1983 accounted for 64%. The Arabic countries' share is greater than the shares of the U.S., EEC and other countries. The higher share of Arabic participation is probably becuase of exemption from the condition of local partnership in some investment areas such as banking, construction and housing projects(*), etc. Moreover, it is also clear that the share of non-Arab investors in the commodity sector (particularly the industrial projects) is greater than the Arab investors' one, which is mainly concentrated in or allocated to services projects, financial and contracting projects(*).

(4) In a recent statistical study, GAFI indicated that the Egyptian investment has reached 70% of the local investment projects[9]. Under the new companies law no. 159 of 1981, the size of capital realised, exported capital, etc

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* According to law No. 43 of 1974 as amended by law no. 32 of 1977 (more details in the next chapter).

are presented in table (C-38). From this table it may be established that the size of exported capital exceeds the sum of capital realised during the period covered.

Table (C-38.) Exported Capital vs. total capital allowed and total capital realised under the law no. 159 of 1981 since 30.11.82 up to 30.6.83 (1).

(Value in £E 1000)

Sector	No. of Projects	Capital Allowed	Exported Capital	Capital Realised
(1) Construction & Contracting projects	33	60780	18667	6116
(2) Industrial projects	17	8941	7511	6082
(3) Commercial projects	9	3650	1650	900
(4) Agricultural, husban & poultry projects	10	15423	6433	2761
(5) Tourism & Hotels	4	10930	10930	3145
(6) Air conditioning & Refrigerating projects	3	14500	1750	625
(7) Others	10	8253	4003	1441
Total	86	122477	50934	21070

(1) Profit repatriation is not allowed without the approval of GAFI as to all projects established under the provisions of law 159/1981.

Source: Central Agency of Stock Market in GAFI's *annual report*, 30.9.1983, p. 43.

In the light of the preceding analysis, it could be argued that FDI has to some extent contributed to Egypt's financial resources. But it is apparent that the FDI results have been disappointing during the past decade (1974-1984), as demonstrated in table (C-36) in addition to the related analysis particularly of foreign participation in relation to the planned investment expenditure,FDI contribution has clearly been tiny. ie. it accounts for between 23 and 34% of the total planned invesmtent of inland projects costs. This in turn means that Egypt must seek to raise funds (locally or from foreign markets) to cover the variance between the total investment projects' costs and foreign share (ie. about 72% of total investment costs). The previous analysis revealed also that the Egyptian share in investment projects (inland projects) accounted for 64%, and the capital exported under the new companies law as shown in table (C-38) exceeds the realised capital.

Accordingly, it may be established that the MNCs have brought in little capital, i.e. their share in the investment projects - particularly the inland ones - was small compared with the planned ivnestment expenditure required. Taking into account both the exported capital and the funds which should be allocated or raised to cover the investment costs (in foreign and local currencies), it is however clear that the MNCs will promote a net capital outflow rather than capital inflow. This in turn means a worsening of balance of payments and local savings.

It is possible also to argue that some of the second-order consequences of FDI such as decreasing capital stock necessary for economic growth, minimal contributions to government tax revenues, a high propensity to borrow capital from foreign markets, etc. are likely to emerge.

A comparison between 1982 and 1983 regarding foreign capital inflow and its share in the investment project as shown in table (C-39),(*) and foreign capital share per project, in addition to the number of projects withdrawn reveals some intresting facts such as:(A) the share of foreign capital increased by 0.5% in the approved inland projects in 1983 versus 1982 and the decrease in foreign capital inflow in terms of the inland projects in operation, public approved projects and projects in operation is also evidnet in the free zone investment.

(B) The total capital of the investment projects withdrawn during 1983 (from inland and free zones approved projects since 1974) reached LE 463.804 million for the inland projects and LE 296.427 million for the free zones projects (see table C-40). The withdrawal of a number of investment projects which accounted for 92 projects during 1983 and 141 projects during 1982 will enormously influence capital formation in Egypt i.e. decrease the number and value of plants and equipment and influence the possibility of developing infrastructureal projects, etc. These also may decrease or affect the quality and quantity of Egypt's outputs (goods and services), GNP, employment, etc., because most of the projects withdrawn are of great importance to the

(*) See next page.

Table (C-39) Foreign capital inflows and its share in the investment projects in Egypt up to 31.12.1982 vs. 1983.

	Inland Projects			Free Zones Projects					
	Ap.	IO	UI	Public			Private		
				AP	IO	UI	AP	IO	UI
Total (LE Million) - 1982	2970.0	874.0	731.5	246.0	156.0	45.6	1496.1	224.7	69.2
Total (LE Million) - 1983	3428.3	1197.4	743.7	270.3	159.6	55.1	91.5.0	288.2	103.2
Foreign Capital/Total Investment 1982	31%	36%	21%	72%	75%	59%	65%	75%	0.09%
Foreign Capital/total investment 1983	31.5%	34.5%	23%	64%	72%	68%	85%	68%	98%

Notes: (1) AP = approved, IO = in operation, UI = under implementation.
(2) The approved projects cannot be considered as a commited project.
(3) The 141 projects that withdraw during 1982 included in the above table because these projects have not been defined.

Source: Based on tables nos. (7), (8) and (9) - Appendix (A).

development of Egypt (e.g. industrial, construction, agricultural projects, etc.).

Table (C-40) Number and total capital of the investment projects withdrawn during 1983[1].

(Value in LE 1000)

Sector of Investment	No.	Total Capital
I. Inland Projects:		
(1) Industrial projects	30	63949
(2) Financial projects	5	273500
(3) Agricultural projects	4	11168
(4) Construction projects	7	5960
(5) Servcies projects	11	109227
Grand Total : Inland investment	57	463804
II. Free Zones Projects:		
(1) Public free zones	27	22129
(2) Private free zones	8	274298
Grand Total : Free Zones Investmetn	35	296427

(1) Withdrawn projects during 1982 totalled 141.

Source: GAFI. Statistical report, December 1983, table no. (18) and table no. (30).

(C) Project's shares by foreign capital: as exhibited in table (C-41) below, it can be seen that shares of foreign capital in each project formed are small.

Table (C-41) Foreign capital shares per investment projects - 1983 vs 1982.

(Value in LE Million)

	Inland		Free Zones			
			Public		Private	
	1983	1982	1983	1982	1983	1982
Foreign capital/no. of approved projects	2.46	2.33	0.96	0.82	16	25
Foreign capital/no. of projects in operation	1.8	1.58	0.77	0.75	6.5	5.2
Foreign capital/no. ofprojects under implementation	2.3	1.90	1.30	1.1	34	11.5

Source: Based on tables Nos. (7), (8) and (9) appendix (A).

It has to be noted also that most of the projects formed under law 43 are non-industrial oriented rather than industrial ones (either in terms of the inland or the free zones projects as illustrated earlier).

(D) With regard to annual foreign capital inflow, the figures of the projects in operation for example, confirm that these entered Egypt during the period from 1974 to 1982 about LE 109.25 million annually. ie. about LE 874 million since the 1974 policy was introduced (in 1981/82 workers remittances reached at over 2.2 $ billion, cotton & textile exports earnings reached $ 600 million, Suez Canal revenue $ 900 million, and petroleum bringing in $ 2.8 billion)[10].

(2) Technology Transfer: Looking at the size of the inland projects formed (approved, in operation and under implementation projects) as measured by the total investment costs for example, per project, it can be established that the small-sized projects as displayed in table (C-42) which have been formed under the current investment policy may transfer a limited amount of technology to Egypt. Particularly most R & D activities are likely to be concentrated in a few firms located in the MNCs home country because for example, the MNCs may have no interest in diffusing their know-how to potential competitors.

Table (C-42) The average total investment per project 1982-83*

(Value in LE Million

	Inland Projects	
	1983	1982
Total investment costs/no. of approved projects	7.8	7.5
Total investment costs/no. of projects in operation	5.3	4.4
Total investment costs/no. of projects under implementation	10.0	8.95

* Including the withdrawn projects reported earlier.

Source: Based on tables nos. 7, 8 and 9 - appendix (A).

Despite the growing number of licenses and the size of related investment in 1975 compared with 1973 as demonstrated in table (C-43), it could also be argued that

Table (C-43) Domestic investment approvals by sector, number of licenses, total investments and employment (1973-1975).

	Number of Licenses		Total Investment (£E Thousands)		Employment Numbers
	1973	1975	1973	1975	1975
Engineering	181	197	9,985	10,818	3,246
Textiles	30	181	1,272	12,238	4,468
Chemicals	44	143	1,259	17,540	3,363
Food	27	127	835	10,177	2,108
Leather	24	31	1,616	7,100	1,729
Electrical	14	29	744	7,165	1,603
Metallurgical	11	20	935	1,389	530
Mining	1	12	128	1,698	274
Total	332	740	16,684	67,124	17,231

Source: D.A. Roy. "Private industry sector in Egypt: an analysis of trends, 1973-1977". Mentioned by D.W. Carr. Foreign investment and development in Egypt. op.cit., p. 66.

advanced technology is more likely to be associated with larger firms/projects (at least among firms which invest abroad). The cause and effect of such proposed relationship may lead to the conclusion that all the projects formed under law 43 of 1974 may not be able to transfer the technology needed either in a form of machinery, equipment, or training and developing local skills, R & D, etc. (taking into account that the largest part of capital assets has been contributed by the Egyptian investors).

Furthermore, from table (C-36) and the distribution of invested capital by type of activities as illustrated also in tables (7), (8) and (9) in appendix (A), it is apparent that the number and size of investments in non-industrial projects are greater than in the industrial ones. It is probable, however, that one would suggest that the amount of technology transferred through non-industrial projects is limited compared with the industrial projects. Industrial projects in most cases (even if they are not capital-intensive) involve a high technolgoy profile e.g. machinery, equipment, training, R & D activities, know-how etc. ratber than the commercial projects. In a country like Egpyt, one would argue that most of the commercial and services know-how and knowledge have already existed for a long time.

Finally, an investigation of the distribution of established Free Zones' projects by types of activities demonstrates that most of them are services and warehousing projects (as illustrated in table no. 10 in Appendix (A)[11]. This would appear to support the above argument.

Following from the above analysis, it could be argued that very little technology has been transferred to Egypt. Small-sized projects and a great number of non-industrial projects compared with industrial ones, may not be able to provide much technology because they provide only a small number of training and managerial programmes for example, which are important for making better use of local personnel in their production processes.

As a result, it is possible to argue that FDI adds little value to local labour force in terms of training and increasing their skills, etc. Thus the FDI's contribution to the Egyptian economy (in technological terms) is arguably very small.

(3) Management. It has been argued earlier that the provision of advanced managerial skills by MNCs may produce important benefit to a developing country because such skills are scarce factors in production inputs in that country. Unfortunately, there is no direct data available to assess the contribution of FDI with respect to management development in Egypt. But it seems possible that the preceding argument concenring technology transfer can also be displayed here in so far as the provision of foreign management, know-how and techniques, etc. are also integral parts of technology transfer.

(2) The creation of job opportunities and employment gains

MNCs have been seen as providers of employment. The employment creation effects (direct and indirect) in a developing host country such as Egypt are of great importance because of the population boom in the first place. In this connection, the direct employment effects of MNCs activities in Egypt can generally be inidicated as follows:

1) From 1974 to 1981 the estimated number of job opportunities of the inland projects that started production accounted for 63,577 jobs i.e. about 9082 jobs every year with the average was about 146 jobs per project formed. In the free zones (public and private) the number of estimated job opportunities during that period totalled 12,323 jobs, i.e. 1760 jobs created every year, with an average of about 57 jobs per project(12).

(2) Table (C-44) shows the distribution of both estimated and realised number of job opportunities and annual wages in the inland and free zones projects that started production up to 1982 and the first half of 1983.(*)

3) As already stated, the new five year plan (1982/83-1986/87) aims to create 400,000 jobs, i.e. 80,000 jobs every year to cope with the drastic annual increase of population. Taking this target into account and the estimated jobs which will or can be created by FDI projects (10842 jobs every year in both inland and free zones projects as based on 1981 statistics), it can be established that about 13% of the annual jobs needed will be supplied through FDI projects.

In the light of the preceding data concerning direct employment effects of FDI and the indirect employment

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(*) See next page.

Table (C-44) Distribution of the estimated and the realised number of job opportunities and the annual wages of the inland and free zones projects that started production up to 1982 and mid 1983.

(Value in 1000 L£ otherwise stated)

Types of Projects activities	No. of Projects Reviewed	Total Number of Jobs		Total Wages		Variance		Average of the Annual wage	
		Estimated (1)	Realised (2)	Estimated (3)	Realised (4)	(2-1)	(4-3)	Estimated	Realised
(1) Inland Projects (December 1982)									
- Industrial	167	29119	34100	31605	51620	+4981	20015	1085	1514
- Agricultural	19	4558	4552	3950	8676	-6	4726	866	1906
- Construction	46	12048	11346	17089	21599	-702	4510	1418	1904
- Services	66	6949	14450	11389	34901	+7501	23512	1639	2415
Total of Non-financial projects	298	52674	64448	64033	116796	+11774	-	1216	1812
(2) Financial projects (December 1982)	128	n.a.	9717	n.a.	32342	-	-	-	3128
Grand Total (December 1982)	426	52674	74165	64033	149138	-	-	1216	2011
(3) Non Financial projects (up to 30.6.1983)	1004	201821*	n.a.	259.7* Million	n.a.	-	-	-	-
		3115+	n.a.	41.3+ Million	n.a.	-	-	-	-
(4) Free Zones projects									
(A) 31.12.1981 **	215	12323*	-	15006*	-	-	-	1218*	-
		672+	-	3540+	-	-	-	5258+	-
(B) 30.6.1983	n.a.	17900*	-	40.6*M	-	-	-	-	-
		1000+	-	8.0+M	-	-	-	-	-

* Egytpians, + = Foreigners, ** Deprived from CAPMS, op.cit., p. 64.

Source: GAFI's Cairo ANnual Report - 1982/83, September 1983, pp. 65-67, 86 and p. 105.

effects outlined earlier, it could be argued that FDI helped Egypt's employment somewhat. Even if the outlook is by no means hopeful, nevertheless FDI could still make a limited contribution to the employment problem in Egypt.

At the same time, empirical evidence reveals some adverse effects of FDI on employment in the state-owned enterprises. It has been found that the new firms formed under the new investment law have attracted the most experienced skills in marketing and other areas through higher wages and incentives[13]. Practices of such a kind may also create or widen the gap in income between social classes instead of closing it, disrupt the national wages scheme and labour laws, and so forth as a result of higher wages being paid by MNCs than by domestic firms.

(3) Trade and balance of payment effects

Egypt, like many developing countries, hope to solve its problems with respect to external debt burden, trade deficits, etc. In other words, Egypt has expected much of the solution to its financial problems including those realted to a shortage of hard currencies to rest on the FDI contributions. In general, the impact of FDI on Egypt's trade and balance of payments can be assessed (taking into consideration the effects of capital inflow reproted earlier) as follows:

1) Table (C-45), shows import substitution and both visible and invisible export earnings realised during 1981 and 1982.

2) Table (C-46) illustrates value of product, services realised and value added to Egypt's GNP in 1981 and 1982.

3) Table (C-47) demonstrates both the estimated and realised value of production and services of investment projects that started production in 1981/82.

Table (C-45) Import substitution and export earnings - 1982 vs. 1981.

(Value in LE Million)

	1981	1982	Growth	
			Increase	%
Import substitution ..... (1)	405	685	280	69
Exports (visible & invisible) ..(2)	19	32	13	68
Total (1 + 2) ....(3)	424	717	293	69
Imports of intermediary goods.. (4)	174	303	129	74
Value Added [(3) - (4)]	250	414	164	65.6

Source: GAFI, Annual Report, September, 1983, p.21.

Table (C-46) Products and services realised during 1981 & 1982*

(Value in LE Million)

	1981	1982	Growth	
			Increase	%
(1) Industrial & Agricultural Products	418	702	284	68
(2) Services	296	465	169	57
Value Added to the GNP	714	1167	453	63

(*) Exclusive only on the projects that have provided GAFI with their balance sheets.

SOURCE: Based on data provided by GAFI's report of performance since 1974 up to December 1983. pp. 18-26.

Table (C-47) Estimated and realised values of products and services of FDI projects that started production, 1981-1982

(Value in £E Million)

Sector	1981				1982			
	No. of Projects(*)	Production Value Estimated (1)	Production Value Realised (2)	(2)/(1) %	No. of Projects	Production Value Estimated (1)	Production Value Realised (2)	(2)/(1) %
Industrial projects	145	338.2	351.6	104	167	527.2	600.0	113.8
Agricultural projects	10	73.2	40.6	56	19	103	84	84
Construction Contracting projects	41	180.5	113.8	63	46	206.3	218.0	105.7
Services Projects	53	127.0	195.9	154	66	200.7	280.4	139.7
Total	249	718.9	701.9	97.6	298	1037.2	1118.4	114.0

(*) Number of projects that provided their balance sheets to GAFI.

Source: Derived from: GAFI. Annual Report, 30.9.1983, pp. 102-103.

Based on the foregoing tables, it could be established that FDI has contributed somewhat prositive gains to Egypt's balance of payments during the period covered. i.e. Aid to Egypt's balance of payments is evident in the above tables. Substituting locally produced goods for imports and increasing the value of Egypt's exports, and increasing production value, etc. may have made it possible for the country's trade account to improve (additionally, the capital account is also probably improved at least temporarily by the inflow of foreign capital referred to earlier to build the facilities required).

Among the possible positive effects as a result of increasing local production and services value is the enhancement of Egypt's economic capabilities whereby the new plants may help to raise the Egyptian GNP, expand its industrial and services base, increase the values added in goods produced, etc. In short, the above consequences may stimulate economic growth in Egypt including of course the balance of payments.

In order to evaluate the extent of the contribution of FDI to Egypt's balance of pyaments these should also be taken into account, both (a) the investment costs of FDI projects in their relation to foreign participation and (b) the quick relaxation of trading measures and curbs which have created rapid import expansion covering approximately all consumer goods especially during the early years of the ODP. Meanwhile, Franko(14), has reported that during the two years the contribution of foreign investment to

Egypt's balance of trade was disappointed. Compared to trade balance deficits of $1.7bn in 1974 and an estimated $ 2.2bn in 1975 FDI in Egypt has, therefore, been tiny.

Above all, further criteria needs to be used in view of the extent to which FDI has added or helped a developing country such as Egypt by undertaking import substitution and export earnings as well as value added to the GNP. In this connection it has been suggested to calculate the following ratios according to the data presented in tables (C-45) and (C-47) for example:-

(a) Import substitution in 1981 and 1982 (average)/GNP 1981/82[15]

$$= \frac{545}{19611.5} = 2.78\ \%$$

(b) Export earnings in 1981 and 1982 (average)/GNP 1981/82

$$= \frac{25.5}{19611.5} = 0.13\%$$

(c) Value added in 1981 and 1982 (average)/GNP 1981/82

$$= \frac{332}{19611.5} = 1.7\%$$

(d) Realised production and services values in 1981 and 1982 (average)/GNP

$$= \frac{910.5}{19611.5} = 4.6\%$$

It is apparaent from the above computed ratios that the contribution of realised production and services, and in consequence import substitution to Egypt's GNP is greater than the contribution of exports. Yet, all the ratios calculated above indicate the modest contribution of FDI to Egypt's GNP and in consequence to the balance of paymetns whereas import substitution value, export earnings etc. Constitute a very small portion in relation to the GNP. Added negative effects (as demonstrated in graph C-7 for example) such as decreasing local savings, widening the trade gap, the continuous growth trends of private consumption, etc. resulting from the ODP towards FDI allow it to be argued that the contribution of FDI has actually been disappointing to a great extent from the point of view of enhancing the economic capabilities of Egypt.

(4) Other Effects Among the possible effects of FDI other than those examined earlier are e.g. increased local ownership and the development of depressed regions. The government of Egypt - like that of other developing countries - seeks real development of the depressed provinces as well as increasing local private and public ownership by requiring foreign investors to accept full or partial local participation in the investment ventures. This is in addition to directing foreign investors to establish their plants in the underdeveloping or economically depressed regions.

In this connection and in accordance with the most available data, tables (C-48) demonstrates the share of the private sector in FDI projects compared with public and

Table (C-48) Private sector's share in the FDI approved project in Egypt since 1974 up to mid June 1983.

Type of Activities & location of projects	Private Sector		Public Sector		Arabic contribution		Foreign Contr.		Grand Total	
	Share	%	Share	%	Share	%	Share	%		%
I. Inland Projects	2012	38	1349	25	1249	23	741	14	5351	100
of which:										
- industrial projects	552	27	621	46	125	10	304	41		
- financial projects	595	30	526	39	899	72	155	21		
- Agricultural projects	110	6	94	7	25	2	22	3		
- Construction projects	245	12	27	2	75	6	30	4		
- services projects	510	25	81	6	125	10	230	31		
II. Free zones projects	163.4	13.9	118.3	10.1	679.3	58	211.1	18	1172.1	100
of which:										
- public free zones	106.4	65	18.1	15	46.9	7	78.3	37		
- private free zones	57	35	100.2	85	632.4	93	132.8	63		

Source: Established on GAFI's annual report, September 1983, pp. 69-74, and pp. 84-86, and appendices no. (9), (16) and (17) of the same report, pp. 106-107 and pp. 124-125.

foreign participation. Additionally, table (C-49) portrays the geographic distribution of investment projects (approved, in operation and projects under execution) from 1974 to mid 1983.

In general, from table (C-48), it is clear that the private sector's share (particularly in the inland investment projects is quite encouraging despite the fact that a greater amount of local private investmnet has been allocated or directed to non-industrial projects. According to table (C-49), it is apparent that most FDI projects have been concentrated n a few geographic regions, e.g. Cairo, Giza, Alexandria and northern provinces.(*) If one takes into account that Egypt includes 26 provinces, it seems clear that the present distribution of investment projects including the size of invested capital, types of activities of investment projects, etc. make no significant contribution to the development of Egypt's provinces other than those mentioned earlier.

Finally, it may be useful (before discussing the reasons behind the lower achievement and contribution of FDI during the period under study) to present the following calculated ratios as based on the preceding reported data:

A) Total non-industrial investment projects accounted for 68% of total approved investment projects up to 1983.

B) Regional distribution of FDI projects

$$= \frac{\text{Total approved investment projects}}{\text{Number of provinces}}$$

$$= \frac{5750.3}{26} = 221.165 \text{ (£E Million)}$$

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* For table (C-49) see following page.

Table (C-49) Geographic distribution of the inland FDI investment projects 1983.

(Value in 1000 £E)

Region	Approved Projects: Ind. P No.	Ind. P Capital	F.P. No.	F.P. Capital	Agr. P. No.	Agr. P. Capital	Cons.P. No.	Cons.P. Capital	Ser. P. No.	Ser. P. Capital	Projects in operation: Ind.P. No.	Ind.P. Capital	F.P. No.	F.P. Capital
- Cairo	106	169578	201	1815865	2	3200	47	211637	113	508301	73	109181	104	923810
- Giza	116	195223	39	131614	24	38057	10	25836	55	191181	55	63561	18	82902
- Alexandria	68	409702	14	55203	.13	39870	5	13105	29	232718	26	39993	7	39750
- Suez Canal provinces	24	251384	13	56500	11	38330	1	2628	15	41502	7	41076	8	37500
- Northern provinces	91	161129	16	47500	41	109101	-	-	6	18058	56	103888	9	34500
- Southern provinces "Upper Egypt"	15	160583	16	50750	15	32154	-	-	15	40891	4	11050	9	30500
- The 10th of Ramadan	86	367074)	-	-	1	4000	-	-	-	-	24	49262	-	-
- Unknown	27	119845	7	35154	2	3525	130	148311	18	19411	3	61100	-	-
Grand Total	533	1835968)	306	2192586	109	268237	193	401517	251	1052062	248	479111	155	1148962)

Region	Projects in operation: Agr. P. No.	Agr. P. Capital	Cons.P. No.	Cons.P. Capital	Ser. P. No.	Ser. P. Capital	Ind.P. No.	Ind.P. Capital	F.P. No.	F.P. Capital	Agr.P. No.	Agr.P. Capital	Cons. No.	Cons. Capital	Ser.P. No.	Ser.P. Capital
- Cairo	-	-	16	24185	59	180980	20	48072	40	121690	1	1000	24	102807	11	254227
- Giza	10	15661	3	6760	25	60465	24	36699	9	19300	3	9710	4	7746	18	74142
- Alexandria	4	7808	3	1471	10	16808	17	297659	1	2163	3	3750	2	11634	6	15610
- Suez Canal provinces	4	21800	-	-	8	24592	6	22205	3	15000	-	-	1	2628	-	-
- Northern provinces	15	63155	-	-	4	1558	16	26755	2	3000	7	16408	-	-	1	[illegible]
- Southern provinces "Upper Egypt"	5	15850	-	-	6	4856	6	9300	4	112500	1	1000	-	-	[illegible]	[illegible]
- The 10th of Ramadan	-	-	-	-	-	-	32	98308	-	-	-	-	-	-	-	-
- Unknown	-	-	69	65616	6	6034	11	38036	3	10114	-	-	16	16785	3	[illegible]
Grand Total	38	124274	91	98032	118	295293	132	577034	62	182517	15	31868	47	141600	64	[illegible]

Key: Ind. P. = Industrial projects, F.P. = Financial projects, Agr. P. = Agricultural projects (eg. land reclamation, poultry, husbandry, fish farming, etc.). Cons. P. = construction projects, Ser. P. = Services projects.

Source: Based on GAFI's statistical report of 31.12.1983, tables no. 8, 9, 10 and 11.

Taking into account that most - if not all - of the investment projects have been distributed throughout only 12 provinces, at present most of the investment projects have either been approved or established in three or four provinces (namely, Cairo, Giza, Kalyobia and Alexandria).

(C) Number of inland export-oriented projects/total number of approved investment projects(*)

$$= \frac{0}{1392} = 0^{(*)}$$

(D) Social welfare benefit as measured by e.g. health and mechanical centres, transportation projects, and housing projects) =

$$\frac{\text{Approved housnig, transportation \& health projects}}{\text{Total approved investment projects}} = \%$$

$$= \frac{394}{5750.3} = 6.8\%$$

or:

$$\frac{\text{Approved housing, transportation \& health projects}}{\text{Total approved non-industrial projects}} = \%$$

$$= \frac{394}{3900} = 10\%$$

or:

Using the following methods of social profitability calculations as suggested by Vernon and Wells(16) which are as below:

(*) Based on the field research enquiry.

* Net benefits = social benefits minus social costs for all inputs ⟶ should exceed zero (for a certain project to pass the test).

* Benefits/cost = social benefits divided by social costs for all inputs ⟶ should exceed one.

Using the following extreme assumptions:

. Foreign capital inflows = provision of social benefits. (1)

. Social costs = total investment costs minus total capital (foreign and local) of investment projects(*) (2)

By Applying Vernon and Wells's Methods:

Net Benefits = (3428.3) - (5124.4) = -1699.7 ----- ⟶ Failure

or:

$$\text{Benefit/Cost} = \frac{3428.3}{5124.4} = 0.67 \text{ ---- } \longrightarrow \text{ Failure}$$

Despite the oversimplicity of the above-computed percentages it could be argued that FDI in Egypt as currently undertaken does not support or contribute significantly to: (1) building up a national industrial base i.e. Egypt's investment policies in general tend to commercialize the economy rather industrialize it over the past decade. (2) Social welfare, (3) development of depressed regions, and (4) improvement of balance of payments and trade account.

(*) Investment costs here can be arguably allocated to alternative uses.

2.2 Barriers to FDI contribution in Egypt

Broadly speaking, many reasons can be adduced for the modest contributions of FDI to Egypt. Matar[17], and Franko[18], among others have reported several problems relating to FDI in Egypt. Foremost among these problems, (with the previously outlined characteristics of the Egyptian environment in mind) have been the following:-

1. The shortage of foreign exchange and the applied exchange rate.
2. Lengthy negotiations with the Egyptian authorities combined with slow moving bureaucracy which have caused some companies to give up investment in Egypt.
3. The country's lack of adequate infrastructural facilities.
4. Difficulties in finding suitable partners for the investment ventures.
5. Minority ownership.
6. Lack of information.
7. Restrictive regulations (investment law, customs, fiscal measures, etc.).

As stated earlier, most of the above problems in Egypt are typical in many Third World countries, perhaps one of the most important obstacles which may influence markedly FDI inflow and contribution to the Egyptian economy is probably related to the organization and implementation of FDI policies in Egypt.

As far as the present study is concerned, in a development stage (more specifically in the next chapter) it has been considered important firstly to have a look at the salient features of the Egyptian policies on FDI, in terms of the associated problems and defects of these policies in the context of other developing countries' experiences - which have been discussed earlier - in addition to the alternative developmental courses of actions required, which will be undertaken in Sections (E) and (F).

It is nevertheless useful to note that in principle one cannot argue easily against the objectives (of a developing country such as Egypt) aimed at through FDI. In practice, FDI has relatively had a certain degree of success, but the policies adopted have been clouded in controversy in terms of regulations, structure of incentives offered, etc, which may lead to some questioning of basic practices and changes have to be considered. Generally speaking, the argument is FDI policies were haphazardly introduced into the economy without careful planning and detailed study. What factors or problems other than these associated with the Egyptian investment climate are behind the modest performance of FDI ?

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17. L.A. Franko, Has Multinational Corporate foreign investment been oversold ? _op.cit._, pp.20-21, and pp. 22-23.

18. M.H. Matar, Direct Foreign Investment in Egypt, _op.cit._, pp. 303-322.

CHAPTER 3

FDI POLICY IN EGYPT : ORGANIZATION AND IMPLEMENTATION

Introduction

It has been argued that the developing countries, including Egypt, differs from the developed countries in many respects. There is a set of gaps (e.g. technological, GNP per capita, etc.) which separate developed countries. In order to bridge these gaps, the Eypgtian government has tried several methods, among them the ODP by which the Egyptian economy entered into a new era.

As stated before, the government of Egypt has come to realize that FDI can be a method of bridging the development gaps which impaired the overall economic and social development in Egypt for a long period of time. i.e. Opening the door to FDI has been regarded as urgent for revitalising socio-economic progressin Eygpt after the drastic failure of the closed economic system from the early 1950s to the mid 1970s.

Taken into account is the argument that the impact of FDI in developing host countries is partly contingent upon the policies adopted by these countries. In addition, a developing country such as Egypt is likely to make errors in its policies, organization and practices with respect to FDI due to e.g. existing economic weaknesses or the lack of experience ,etc. Having discussed the FDI policies in some developing countries earlier, the objective of the current chapter is therefore to underline the salient featues of FDI policy in Egypt as follows:

3.1 The Salient Objectives and fields of FDI in Egypt

The ODP has specified numerous objectives to be realised through FDI. Certain areas of investment in which FDI would be welcomed and encouraged have also been determined. Both the mechanisms by which the objectives can be achieved, and the areas of FDI have been specified according to Law No. 43 of 1974 - as amended by the Law No. 32 of 1977 - concerning the investment of Arab and foreign funds and Free Zones. In general,the objectives proceeding from adoption of the ODP toward FDI can be summarised as follows:(1)

1. Objectives in the field of industrial production:

a. Attaining a degree of self sufficiency in products that are currently supplemented by import or reducing the imported amount.

b. Increasing the production capabilities of Eygpt beyond the rate of population growth in order to meet local consumption and to provide surplus for export.

c. Utilizing and benefiting from the favourable geographical location and natural resources of the country by establishing speical industries for export.

d. Introducing modern new industries, products, etc. and transferring the Egyptian industries into large scale productive units.

e. Activating the economic sectors that are currently facing inefficiency and stagnation by providing the necessary capital not available from the government.

f. Introducing the most recent tehnological knowledge and experiênce into the Egyptian industry.

g. Achieving international competitive status for Egyptian products, and increasing the selling value of products by performing extra industrial operations on products that are exported as raw material and half-manufactured goods.

h. Increasing petroleum production, energy supply, etc. and providing the agricultural sector with its requirements e.g. fertilizers, pesticides, fodder, tools and so forth.

2) Objectives in the field of Agriculture Production:

a. Increasing Egypt's cultivable area and expanding agriculture beyond the narrow valley by using modern technology in reclaiming barren lands.

b. Raising production of the cultivable land from different crops by means of using scientific and technical methods.

c. Expanding cultivation of crops for export to increase government revenues from foreign exchange and to improve the economic status of the farmers.

d. Mechanizing agricultural activities.

e. Developing animal and poultry farms and increasing dairy production as well as fish production.

f. Exapnding and developing the agro-industry, canning of agricultural products, establishing warehouses, mills, refrigerators, etc. to increase the value of production.

g. Increasing fodder production to achieve the desired increase in animals, poultry and fish.

h. Introducing modern means of irrigation in order to reduce the loss of water in irrigation.

2. <u>Objectives in the area of employment</u>:

a. Increase the number of job opportunities where the annual increase of population means a corresponding trend in the number seeking employment.

b. The Egyptian labour force will certainly acquire new experiences and skills as a result of e.g. possession of modern technology in production and management.

c. The improvement of circumstances, conditions of work and increased wages will enable Egypt to retain its higly qualified and experienced labour instead of their emigration for the sake of wealth.

4) <u>Objectives in the area of transport and communication</u>: e.g. providing navigation services for passengers and cargo, providing national and international air transportation services, as well as providing public and private passenger cars.

5) <u>Objectives in the fiscal and economic area</u>: (a) activating the stock exchange market, (b) making Egypt the financial market of the Middle East, (c) increasing the transfer of capital to Egypt and d) increasing the revenue of the government from different financial resources e.g. taxes, customs, etc.

6) <u>Objectives in the field of trade</u> such as: (a) diversifying Egyptian exports and raising their value and quality and (b) increasing the volume of Egypt's exports and reducing that of imports to improve the balance of trade, etc.

7) <u>Objectives in the tourism sector</u> e.g. (a) increasing the volume of tour transportation in Egypt, (b) creating and diversifying attractive areas for tourists, increasing the capacity of hotels, etc.

8) <u>Objectives in the field of housing and health services:</u>

a) Modernising construction methods and providing the necessary materials for construction, in addition to increasing the supply of constructed units to meet local demand.

b) Expanding hospital establishments, institutions for rehabilitation, medical care and services for the aged.

c) Providing a high standard of medical services, and attracting people from the Middle East area to increase Egypt's revenue from foreign exchange.

9) <u>Objectives in the social and political fields:</u>

a) Improving the living standards of people

b) Encouraging Egyptians to realize their innovative potentialities.

c) Giving Egypt the right to undertake decisions according to its own advantage and to deal with all the countries of the world without belonging to a given bloc.

From the above illustration of the expected objectives underlying adoption of the ODP, it could be stated that the principal objective is to achieve richness and prosperity in the economic and social life in Egypt. It is nevertheless, important to state that the fields in which FDI (inland investment) is encouraged are numerous. Based on article (3) of Law 43 of 1974 (see Appendix B), the investment of Arab and foreign capital in Egypt shall be for the purposes of realising the preceding objective within the state's general policy and plan. Thus, lists of investment projects have been prepared by GAFI and approved by the Council of Ministers in the field of e.g.

(1) Industrialization, mining, energy, tourism, transportation, etc.

(2) Reclamation and cultivation of barren land.

(3) Housing and urban development and construction activities.

(4) Investment companies, investment and merchant banks and reinsurance companies.

(5) Technical consultant activities.

In this connection, it should at the outset be noted that (a) the policy statement has given special priority to those projects which are designed to generate exports, encourage tourism, or reduce the need to import basic commodities, as well as to the projects which require advanced technical expertise or which make use of patents and trademarks of worldwide reputation. (b) the term "invested capital" in the application of the provisions of law 43 shall be deemed to mean the tangible assets e.g. machinery, equipments, raw materials, foreign currencies, etc. and the intangible assets, e.g. patents, trademarks, and so forth (see Art 2, app. B).

3.2 Mechanisms, requirements and structural considerations with respect to FDI

With an understanding of the preceding objectives which it is sought to realise through FDI in Egypt, it would be better to look at the mechanisms, conditions or requirements and other structural considerations with respect to FDI as follows:

1) With reference to incentives, privileges and facilities offered to foreign investors: to attract and promote MNCs to invest in Egypt, the government has granted a broad array of incentives and privileges as well as guarantees. According to Law No. 43 of 1974 (as amended by Law No. 32 of 1977), the major incentives offered to MNCs can be summarised as follows[2]:-

1. Repatriation of profits and capital (see Art. 21, and 22).
2. Tax holidays on commercial and industrial profits, salaries, interests, shares, general income, etc. (Art. 16, 17, 20, and 25).
3. Exemption from certain employment legislations, e.g. labour participation in management, profit sharing wages etc. (Art. 9, 10, 11 and 12).

4. Exemption from local partnership in certain areas of investment activities. (see the exemption from Art. 4). Also, the General Authority for Investment and Free Zones (GAFI) is authorized to exempt any project from local partnership in any investment field.
5. Guarantees against non-commercial risks, e.g. expropriation, nationalization and confiscation (Art. 7).
6. Exchange control facilities (Art. 14).
7. Freedom from local taxes for free zones projects - except VAT.
8. Freedom from customs, duties, etc. on good exported from and imported into,or transported between free zones (Art. 36).
9. Customs exemption of deferment for all or part of the capital assets of the projects, and any production facilities such as raw material and so forth shall be imported without a license (Art. 15).
10. Transactions carried out in the free zones shall not be subject to the exchange control laws and the general tax on income (Art. 47 and 49).

The government of Egypt has issued a new companies law NO. 159 for 1981 concenring the joint stock companies which includes a complete reorganization of the conditions governing the companies established under its provisions which were formerly scattered throughout a nubmer of diverse laws, hard to encompass by the investor, for example:(3)-

a. The establishment of a company requires only the approval of a committee of specialized technical members instead of the approval of the competent minister.

b. Eliminating the previous government supervision over the establishment process.

c. The law excluded several restrictions related to members of the board of directors such as non-combination of the membership of the board of directors of more than one company and the restriction on age (60 years). In addition, many other restrictions have been eliminated and removed with regard to the financial structure, mergering and the trnasformation of the company form, management,e tc.

e. According to the provision of law (159/1981) companies will be automatically considered as approved if no resolution is taken within 60 days from the date of application.

f. Law no. 43/1974 vs law no. 159/1981: Both laws are arguably meant to encourage investors (foreign and nationals) to invst in Eygpt. Law 43 was basically aimed at encouraging foreign investors. By the provisions of this law, companies established are considered as foreing companies even when they belong to nationals and regardless of the "equity/capital invested" ratio in the case of foreign partnership.

In 1983 new measures and policies were introduced to stimulate investment in Egypt: in August 1983, the Ministry of Investment announced the following new policies and measures[4] :-

- Support to the Egyptian investor. In recognition of the importance of creating a national private sector capable of participating in joint ventures projects and taking into account that about 65% of total investments under law 43 were made by Egyptians, the Ministry looks upon the Egyptian investor as the pivotal element in the investment process. To that end, the new companies law 159 of 1981 was promulgated and relevant executive regulations enacted and issued. Additionally, no limitation on Egyptian shares in investment companies will be imposed.

- No conflict between the investment project and the national interests. The serious investor aims at investing his money and effort in a project of economic importance to Egypt ie. to increasing employment, national output and export as well as reducing dependence on imports.

- No resolutions with retractive effect. A decision has been taken that no resolutions may be applied retroactively. This confirms the importance of stable measures for the creation of a conducive enviroinment for economic activity.

- Allowing contracting firms to lease equipment to overcome their problems with the customs authority when importing specialized equipment.

- Establishment of a joint committee to rationalize approvals in order to reduce the time required to obtain all the necessary approvals for a project from the various authorities. This is in addition to cutting down bureaucracy.

Participation of public financial institutions in joint venture companies.

-Decentralization of resolutions. In an effort to achieve decentralisation in the decision making process, all powers granted to the chairman of GAFI and his deputy have been duly confirmed.

- Tax exemptions. In the setting up of strong economic unit able to produce on a large scale, it has been decided that capital increases of law 43 projects shall enjoy the tax holiday offered by that law. Such exemption shall not apply once again to initial paid-up capital already exempted.

- Quality specification and price control determined by the government will be applied to the production of investment projects. However, these products will not be subject to price control regulation, provided that none of the inputs receive government subsidies. If prices are considered unreasonable, the investment authority has the right to intervene.

- Equity loan ratio reconsidered. GAFI's board has decided that investment projects exceeding an overall costs of LE 5 million will be eligible to obtain loans surpassing their capital provided such capital is not under 35% of total investment cost (previously this ratio was 1:1 with no differentiation among projects).

- The investor has to take serious steps to carry out the projects approved within a certain period of time. i.e. within 6 months of the date of approval (this period can be extended twice) and if the basic objectives of the project are not achieved GAFI's board will make a resolution to cancel the project.

- Denomination of capital. In order to tackle problems faced by some investors with regard to denominating their equity in LE equivalent, a decision has been taken to define the capital of project's approved under law 43 of 1974. Capital which is fully paid up in foreign currencies can be denominated in the same currencies.

(2) Main criteria for project approval: the general conditions that have to be satisfied before an application to invest in Egypt can be approved may be summarized as follows:[5]-

(a) The proposed project will lead either to the earning or saving of foreign currency.

(b) The proposed project will raise the overall level of employment.

(c) The investment will result in a gain in technical knowledge thus raising the existing level of technological know-how.

In general, priority is given to import substitution industries, proejcts which introduce advanced technology and projects which are export-oriented.

(3) <u>Information needed by the investment authority for evaluating the applications for Law 43 investment projects.</u>

The information that the investor is called upon to submit to the authority can be summarised as follows:(6)

(A) Information about the applicant: e.g. the identity, address, nationality of the investor and his co-venture partners and representatives if any, and in addition, information which describes his experience especially in other developing countries.

(B) Information about the project: Title of proposed project, type and legal status of enterprise, proposed management structure, proposed location, and the general nature of the business and its product line.

- A statement of the extent to which technology transfer will take place in the course of the project and details of planned training of Egyptian staff.

- A description of the financial structure of the proposed project, e.g. the amount of loans, equity, sources, etc.

- Details of the proposed project's investment costs. e.g fixed capital expenditure, current assets, infrastructure requirements etc.

- A tabulation of capacity over the expected life of the project.

- A detailed description of projected operating expenses (in foreign and local currencies), e.g. skill levels, wages/ salaries structure.

- The results of a market survey showing for example: prices and quantities of each product in the local or foreign markets, pricing policy, proposed channels of distribution and so forth.

- Statement of projected revenues and profitability ratios.

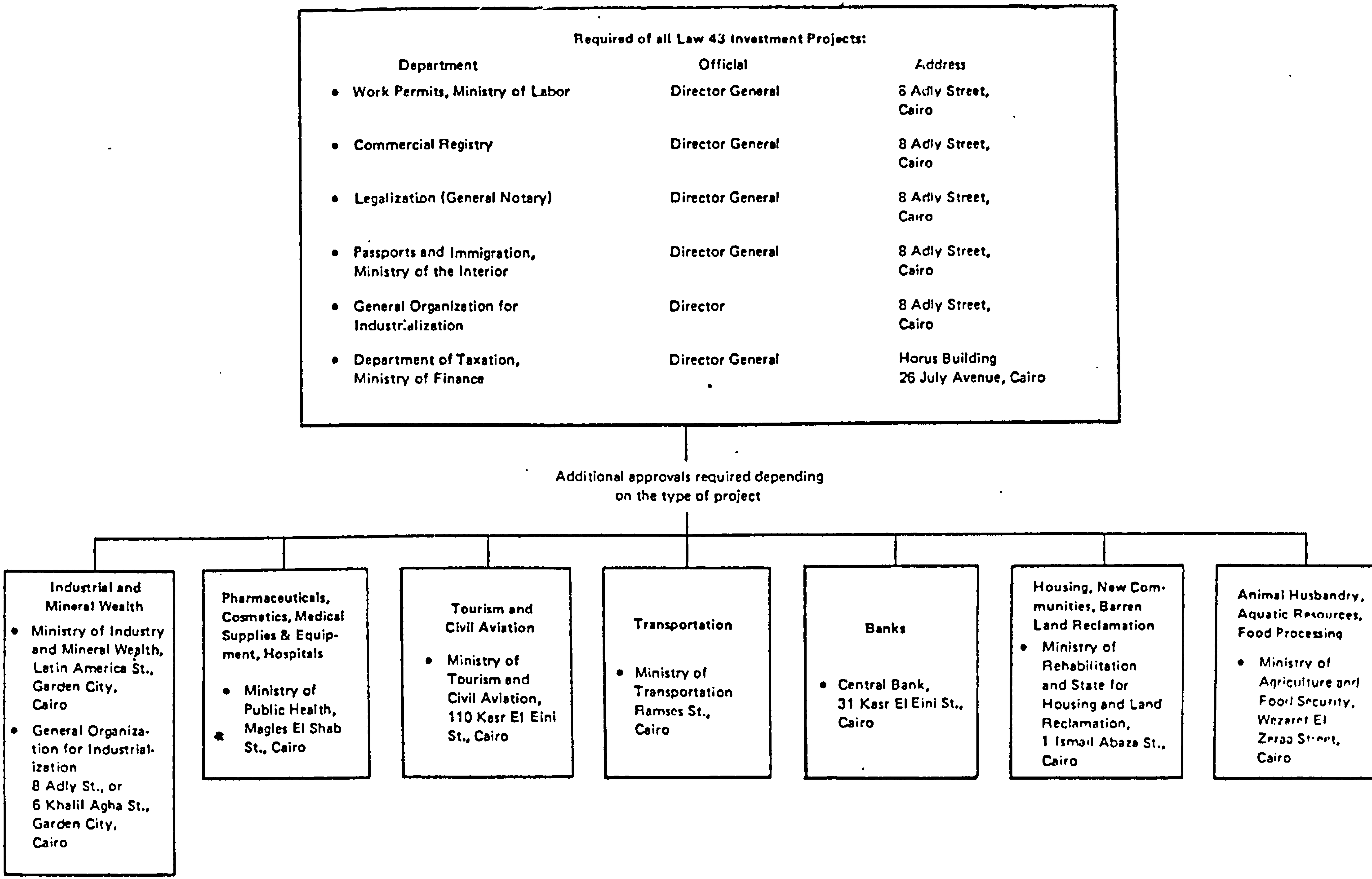
- Information on sources and applications of funds taking into account equity capita, projected income from the operation and debt servicing requirements, etc.

- The expected outflows of foreign currency for such items as interest, raw material, expatriate salaries, and so on. And the expected inflows in the form of equity, loans, and receipts from exports.

To facilitate comparisons over a period of time and to indicated expected changes in relative prices, the investors are asked to measure all values in monetary units of constant purchasing power over the span of years covered by their feasibility studies.

Above all, there are several governmental agencies that participate in the review of investment applications or have regulatory responsibilities as projects are implemented. These agencies as shown in figure (C-1) are The general Notary, the work permit department of the Ministry of Labour, the immigration office of the Ministry of the Interior, and a liaison office of the General Organization for Industrialization, the Tax Department of the Ministry of Finance, etc. The approval of these agencies is also required before GAFI's staff submit applications to the Board of Directors together with their recommendations.

Figure C-1. Inter-agency approvals requird of Law 43 investment.



Source: Ibid., p. 50.

(4) Market Entry. In terms of the type of business organizations, there are six possible methods by which two or more investors can form an enterprise in Egypt. These forms of business association are as follows:(7)-

(1) Partnership.

(2) Limited partnership.

(3) Partnership limited by shares.

(4) A joint-stock company (corporation).

(5) A limited liability company.

(6) A profit sharing association.

In this context, it should be noted that investors who organize i.e. form a company under law 43 are exempted from many legal requirements imposed on other Egyptian corporations, particularly with regard to its board of directors and some personnel requirements and policies that have been reported earlire. At the same time, it has been reported that both kinds of organisation, the joint-stock company and the limited liability company are very similar to the French Société anonyme" and Société a responsibilite Limitée" respectively. Also, in practice foreign investors will normally only have interest in the joint-stock company and the limited liability company. In terms of the principal requirements for establishing these two forms of organization, exhibit (C-2) shows these requirements in a comparative fashion.

With respect to the method of entry into the Egyptian market, the MNCs concerned generally make use of one of the

Exhibit (C-2) Principal Requirements for Joint Stock Companies and Limited Liability Companies Organized under Law 43

Requirement	Joint Stock Company	Limited Liability Company
1) Number of founders	- Minimum of two	- Minimum of two (three if husband and wife are co-founders), maximum of 50
2) Minimum capitalization	- LE 20,000	- LE 1,000
3) Share of Capital	- Equal in value, minimum face value per share LE 1	- Minimum face value per share LE20 - May not be the subject of a public offering - Other shareholders have right of first refusal if one shareholder wants to sell his shares. - Company articles may impose additional restrictions on sale of shares.
4) Pre-registration	- Registration with the Commercial Registry and publication of Articles of Incorporation and statutes in the Official Gazette.	- None
5) Board of Directors ("Administrative Council")	- Names, ages, qualifications and nationalities of members must be submitted annually to the Companies Department of the Ministry of Supply and Internal Trade. (Law 43 companies must also submit this information to the invest-ment Authority).	- If more than ten shareholders, a "supervisory council" similar to a board of directors msut be established to oversee manager(s).
6) Stockholders' meetings	- Annually - Date and agenda must be pub-lished in two newspapers (one Arabic), second pub-lication at least 10 days before meeting.	- Annually
7) Stamp duties	- Law 43 investors exempt for five years, but must pay a one-time certification fee of 0.25% of capital, up to LE 1,000.	
8) Restrictions on areas of activities	- May engage in any field of activity specified in law 43 subject to limitations established on a case-by-case basis by the Investment Authority.	- May not engage in (inter alia): - Banking - insurance - receiving deposits - investing funds of others

Source: GAFI. The official guide to investment in Egypt, op.cit., pp. 20-21.

following methods:

(A) Exporting methods: The foreign firms can enter into the Egyptian market through the following methods:

i. Export-import through public companies: public sector trading companies (the main activities of which are to trade) act as import-export agents. The main public sector trading companies in Egypt which are located mainly in Cairo are: Arab Foreign Trade Company, El Nasr Export & Import Company, Engineering General Company, General Trading and Chemicals Company , MISR Car Trading Company, MISR Foreign trade company, MISR import-export company and Tractor and Engineering Company[8].

ii. Private sector trading companies. Sicne 1975 Foreign firms and businessmen have been able to export to Egypt through the private trading companies those act as importers or as agents. At the present time approximately 80% of all imports are imported through the private sector, although around 75% of these are destined for public sector enterprises[9].

iii. International exhibitions. Businessmen, manufacturers, exporters and investors have been able to participate in the Egyptian international exhibitions and trade fairs every year. The participation needs only to be arranged through the General Organization for International exhibitions & fairs (GOIEF) in Cairo, as illustreated in appendix (C).

iv. Agents. Both public and private trading companies may act as agents. But there have been some changes in the Egyptian Agency Law recently i.e. since 1975. The position, as from 5 May 1983, will be as follows:(10)

- Agents can be from the public sector (state trading companies or private sector (law no. 118/1975).

- Agents must be of Egyptian nationality, and have been resident in Egypt for at least two years (Presidential decision No. 14/1976).

- Agencies must be 100% Egyptian-owned and the board of directors must aslo be composed entirely of Egyptians (14/1976).

- A firm may appoint separate agents for separate products.

- Agents must be registered with the commercial agents registration administration (at the Ministry of foreign trade).

- Public sector companies are allowed to accept offers from tenders only when they are submitted through agents (public & private). (Ministerial decision no. 947 of 1976 and decision no. 733/1975).

- Private sector purchasers may accept any offer they wish whether submitted through an agent or not.

By the provisions of law no. 14/1976 concerning private sector agencies (art. 1 section two) and (Art. 5), and law no. 120/1982 (art. 3 and art 7), a foreign partner may participate with an Egyptian partner (public or private) in the establishment of an agency. But the shares possessed by the national partner shall not be less than 51% of the capital and the headquarter should be in Egypt. The foreign firm practising trade activities may not establish offices for scientific, technical, consultative or other activities unless they have a trade agency in Egypt. In the case of a partnership, the capital shall not be less than LE 20,000[11].

Finally, an Egyptian agent is also required for all other commercial activities whether or not the sale of goods or services is involved. These would include consulting market research, maintenance services, etc.

(v) Bilateral deals. The countries with which Egypt has bilateral agreements covering also arbitration of investment and ownership disputes are as follows:[12]-

Belgium, Federal Republic of Germany, France, Greece, Iran, Italy, Japan, Morocco, Netherlands, Roumania, Sudan, Switzerland, United Kingdom, United States of America and Yugoslavia.

(vi) Branch office. A branch office in the name of its parent company can be established, but it must be registered with the commercial register of the Ministry of Economy according to law no. 34 of 1976. The branch is of course entitled to enter into transactions in the name of its parent company but as a separate entity. i.e. it can receive money and conduct contracts and thereby makes itself liable for Egyptian corporation tax on profits made in Egypt, and has a separate financial activity from the headquarters abroad, as well as a separate budget and audit[13].

(B) Manufacturing Methods. There are three major methods by which the MNCs/foreign investors have been able to manufacture goods in Egypt. These methods are as follows:

(i) Licensing. Egypt is one of the developing countries which has realized the importance of technology transfer as a vehicle of the overall economic activities' development. Egypt in this regard took a flexible approach to make the transfer of technology as easy as possible for the Egyptian private and public sector industries. Steps, therefore, have been taken in this context, e.g.[14]

- Egypt sigend the international patent co-operation treaty of 1970. It also joined the convention establishing the Intellectual Property Organisation in April 1975.

- The issue of a patent law as based on the British model to protect patents, granted protection for 15 years. In addition, it may be renewed for ten more years in certain circumstances.

- According to law 43/1974, any investor bringing patented technology or industrial know-how into Egypt can count that it will be considered as an intangible asset and an acceptable form of invested capital for ventures established under this law.

- Foreign investor/licenser has the right not only to choose the licensee but also to negotiate any arrangements regarding the percentage and terms of payments including management fees, as well as transferrring payments abroad.

- Royalties and management fees are liable to Egyptian taxes unless the licensers choose the law 43 option where they enjoy a five year tax holiday on income from mobile property.

- Egypt has also signed some treaties with some countries reducing reciprocally the regular rates of this and other taxes.

- Egypt has established a Trademark Registration Office to register and protect trademarks and patents.

ii. Joint ventures. Law 43 of 1974 (as amended by Law 32 of 1977) is the corner stone of foreign investment in Egypt. According to this law, any type of project is eligible for foreign investment with the participation of a domestic natioanl partner (public or private). In either case the resultant joint venture is ocnsidered as being private sector. In the case of the public sector partners it is required that the public partner should have the majority shareholding (51%) in a joint venture. But in the case of the private sector, either side (ie. foreign or national) may have the majority(15).

All the privileges, incentives and facilities which have been adduced earlier are available for all the inland venture projects. The procedures for setting up a venture can broadly be summarized as follows:(16);

(a) Feasibility study, (b) preparation of an application form to be submitted with the feasibility study to GAFI, (C) a tentative approval for the project - on the basis of (a) and (b) will be issued by GAFI (approximately within 120 days), (d) additional approvals and information shall be required from other agencies depending on the type of project, (e) submission to the legal department of GAFI of the incorporation documentation, and (f) publication in the Egyptian Gazette of the Ministerial decree incorporating the company under the conditions of law no. 43 as amended.

(iii) Free Zones Projects. A Free Zone is a specifically designated geographical area which can be either public or private. Inside a free zone the foreign investor can own 100% of the equity, with no corporate taxes on profits, no customs duties on imports into the free zones. Taxes on income such as wages, salaries, compensations, etc. shall be exepmted from the general tax on income (Art. 47). And transactions carried out in the free zones or between them and other countries shall not be subject to the laws of exchange control (art. 49).

According to art. 35 of the law 43/1974 (see appendix B), licences in the free zones may be granted for the performance of the following: (a) storage of transit goods, (b) storing, cleaning, mixing, and blending even with local goods, repacking and similar operations which adapt the conditions of goods warehoused in the free zones to the requirements of trade and processing such goods to meet market requirements.

(c) Any manufacturing, assembling, mounting, processing, renewing operations, and (d) engaging in any trade warranted by the activities within the free zone or intended for the comfort of the employees in the zones.

In general, the law provides a wide variety of activities, which can be implemented inside the free zones. Moreover, it provides advantages, privileges - fiscal and legal - for the free zones projects (see Appendix B).

Finally, inland foreign-owned subsididaries (either in terms of sellilng or manufacturing goods) are not allowed. But by way of exception from Art. 4, of law 43 of 1974, The Authority's Board of Directors, by a two-thirds majority vote of its members, may approve the investment of Arab or foreign capital without local participation. Moreover, it is possible to establish technical consultancy offices without regard to the above condition.

3.3 Organization of the Investment Body[17],[18]

GAFI or as sometimes called the Investment Authority is the main agency charged with the duty of implementing law 43/1974. This law grants powers to GAFI making it the primary government agency responsible for implementing the law, and thus for guiding private sector development in Egypt. The activities of the authority are supervised by a Board of Diretors. Membership of the GAFI's Board of Directors is made up of the following officials: Minister of State of Finance, Minister of Industry and Mineral Wealth, Minister of Electricity and Energy, Minister of Economy and Foreign Trade, Minister of Planning, Minister of Rehabilitation and State for Housing and Land Reclamation, Minister of Tourism and Civil Aviation, Minister of Agriculture and Food Industry, Representative of the Ministry of Petroleum, Chairman of the General Authority for the Stock Market, Governor of the Central Bank Deputy Chairman of the Investment Authority and Councillor of State for the Advisory Department in the State Council.

By the provision of Law 43, GAFI has been created to perform the following tasks and functions[19]:

a) Study the laws and regulations in connection with Arab and foriegn investment.

b) Prepare lists Covering types of activities and projects in the participation of which Arab and foreign capital may be invited.

c) Offer projects for investment of Arab and foreign capital.

d) Review applications submitted by investors and report on such reviews to the Authority's Board of Directors for action on these.

e) To approve projects established with Egyptian capital and owned by Egyptian nationals.

f) Register incoming capital and approve remittance abroad of net profits.

g) Facilitate procurement of permits necessary for executing Arab and foreign capital ivnestment projects including all necessary administrative permits, especially residence permits for businessment and foremen, etc.

In general, GAFI was created with the idea that it would have a hand in virtually every aspect of the investment process in Egypt including promoting new investment in priority areas, aiding companies established under law 43 in their relations with other government agencies and so forth.

To accomplish the above functions (in collaboration with the other state agencies), GAFI has been organized according to the chart (C-4).shown in the next page.

The Deputy Chairman of the Board (who serves as Managing Director of the Authority) is assisted by two main departments with an authority-wide functional focus. These are the Central Department for public relations and the Central Department of Technical follow-up. The former has the classic responsibilities of a public relations unit: to maintain open lines of communication both within the authority and between it and outside bodies, to serve as liaison between the authority and local and international media, etc.

The Central Department for Technical follow-up is, as its name implies, an executive agency charged with the duty of ensuring that technical and economic decisions made by the Board and the Deputy Chairman are carried out and it also monitors implementation of the recommendations made by special committees from within the authority as well as those resulting from public conferences.

Chart (C-4) Organisation of the investment authority (GAFI)

Source: GAFI, The Official Guide to Investment in Egypt, op.cit., p.43.

Free zones sector (i.e. Department) is responsible for all free zones, both public and private, and it supervises the activities of licenses, provides services needed for manufacturing or warehousing etc. The free zones as an integrative body of GAFI is also responsible for carrying out functions such as inspection, audit, and follow-up of planned improvements in the different zones and conducting comparative studies to see if successful administrative or technical approaches followed in one zone can be applied to others, etc.

Regarding the investor support sector, two units comprise this sector, the promotion and overseas offices sector and the investors' relations sector. Their task is to explain to potential foreign investors the advantage to them of taking part in investment in Egypt. ie. to encourage FDI flows in Egypt by means of e.g. disseminating information on FDI opportunities, answering specific questions posed by prospective investors, etc.

Finally, the authority has set up four units to help it carry out its internal functions effectively. These units and their main duties are as follows:

1) Research and information sector: (a) to conduct economic research relevant to Egypt's economy, (b) to develop data on the various sectors of the Egyptian economy which will be of use to investors, and (c) to compile, organize and maintain such data in the investment authority's library.

2) The Auditing and Performance Appraisal Sector:
a) to evaluate and register investments in approved projects and audit the financial performances of operating companies, and (b) to evaluate the performance of approved projects in the light of the objectives originally sought.

3) The Legal Affairs Sector: (a) to prepare and review all legal documents to which the Authority is a party (b) to advise the authority on legal affairs, and (c) to represent the authority in legal proceedings.

4) General Administrative Sector, which performs all the Authority's accounting, internal auditing functions and handles manpower administration functions, etc.

Broadly speaking, from the perspective of an investor, from the time he first expresses an interest in investing or in doing business in Egypt, the functions of GAFI in broad terms are: promotion, research and analysis, planning regulation, and facilitation. These functions aim to (1) encourage FDI in Egypt, (2) provide reliable answers to the investor's questions about the economy, (3) assess investment priorities of potential projects and (4) provide the necessary advice and facilities required or demanded by foreign investors.

3.4 Concluding Remarks

Based on the previous chapter, and in the light of both the Egyptian FDI policy and other developing host countries' policies (as demonstrated in Chapter 3 in section B), it could be argued that similarities and differences exist between the former and the latter in terms of e.g. forms of FDI adopted, incentives offered to attract MNCs orientation to FDI and technology and so forth.

Despite the generally held opinion - as mentioned earlier - that the developing host countries' including Egypt are likely to make errors in their policies towards FDI because of their economic and socio-political weaknesses for example, the following is a summarised comparision between Egypt and the ten selected developing countries policies towards FDI (which have been discussed earlier):

1) The similarities are e.g. :-

A. The most important and acceptable form of FDI in Egypt is joint venture investment and investment according to the Free Zones system. These two forms of FDI appear on the whole to be of great significance in the manufacturing sector (in the inland and free zones investment) in Egypt. Joint ventures investment particularly is the prevalent form of FDI in the inland manufacturing, services, financial projects, etc., in addition to the contribution to employment, capital inflow, etc. they have brought about in Egypt.

B) The establishment of a wholly or majority-owned foreign subsidiary in most countries (except Singapore, Jordan, Brazil and Israel) including Egypt is restricted. ie. the wholly and majority-owned foreign subsidiaries tend to play a minor role in manufacturing, services outputs, and so forth in Egypt as well as in many developing countries.

C) In most cases, the incentives offered to attract FDI in Egypt are somewhat similar to those granted by other developing countries. It is nevertheless important to note that Egypt, contrary to e.g Singapore, Philippines and other countries does not offer specific incentives for pursuing both export and import substitution - oriented investment(*).

D) There are also some similariteis between Egypt and other developing host nations with respect to the criteria for granting incentives to foreign investment particularly in agriculture and related industries as demonstrated in exhibit (C-3) on next page.

E) It is apparent that all countries surveyed are similar in the great demand being made on FDI as a medium for better socio-economic progress.

2) The differences are e.g.:-

a) Egypt has no coherent policy on technology transfer such as exists in e.g. Mexico. There are no guidelines with respect to, for instance, imports of technology or evaluating and screening the technology transferred in

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(*) see e.g. exhibit (B-6) in relation to the incentives offered by Egypt as presented in this chapter.

Exhibit (C-3) Criteria for granting incentives to foreign investment in agriculture and related industries, selected developing countries, mid 1970s.

Countries	Use of Local resources, value added	Exports, export diversification	Import Substitution	Key Sector/ pioneer industries	Agriculture related business	Regional Developm
Argentina	X	X	X			X
Chile	X					
Colombia	X	X				
Mexico	X	X				
Central America Common Market		X	X			X
Benin	X					X
Gabon	X					
Ghana	X	X		X	X	
Ivory Coast				X	X	
Kenya					X	
Mauritania				X	X	
Algeria	X		X	X		
Egypt		X	X	X		
Libyan Arab Jamahiriya					X	
Tunisia	X	X		X		X
Nigeria	X	X			X	
United Rep. of Cameroon				X	X	X
India	X	X		X		X
Malaysia				X		
Pakistan	X	X		X		
Rep.of Korea						
Singapore				X	X	
Iran				X		X

Source: United Nations Centre on Transnational Corporations, op.cit., p. 133.

relation to the objectives sought from FDI, etc.

B) Despite the existence of a Free Zone investment system most of the projects that have been established are not manufacturing oriented (recently, the government announced that the conditions governing the inland investment projects will be applied to some invesment projects which operate according to Free Zones and similar sites' systems)[20].

C) So far the contractual arrangements (international subcontracting, licensing, management contracts, turnkey operations,etc.) seem to be of very limited significance in all manufacturing servicing and other productive sectors in Egypt contrary to e.g. Tunisia, Algeria, Mexico.

D) As shown in exhibit (C-3) and (B-6) for instance profound differences exist between Egypt and other developing countries in terms of the criteria for granting incentives to FDI in general and in particular to some specific types of foreign investment (despite the similariteis in some respects).

Using the above comparison as a basis for developing appropriate courses of action in future, Egypt's policies and practices relating to FDI should be examined with a view to enhancing the potential contribution of FDI to Egypt's economy.

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Section (D)

Study Hypotheses and Methodology

Highlights for Section (D)

This section is concerned with outlining the study variables and assumptions as well as describing the field research methodology which has been followed to examine the hypotheses. It aims also to point out some methodological considerations and limitations regarding the measurement of the study variables, samples, statistical techniques, etc. Thus, the present section involves the following chapters:

Chapter (1): Study variables and hypotheses

Chapter (2): Field research design and methodological Considerations

CHAPTER (1)

STUDY VARIABLES AND HYPOTHESES

Introduction

In the light of Section (A), it could generally be noted that the current study aims to evaluate the FDI position in Egypt (forms, flows and impact) and the prevailing policy stance, with a view to making changes which will improve FDI's contribution. These are in addition to the intention of examining from the view point of BMNCs the determinants and factors influencing FDI decision, activities, etc. in Egypt.

In order to place the present study in a proper perspective, it may be useful to outline the overall variables and hypotheses underlying the structure, domains and the main approach of the study. The present chapter is therefore, concerned with pointing out the variables and assumptions of the study as follows:

1.1 Study Variables:

Taking into account the study purposes and inputs (see figure A-3), the major variables of the current study can be divided into two groups, the first being independent variables and the second the dependent ones. These two groups of variables can briefly be outlined as shown in exhibit (D-1). For analytical considerations and because of:(a) the inter-relationship/interactions between the main variables (dependent and independent) including the sub-variables of the study, (b) the study covers several inter-related aspects of FDI, and (c) the inter-relationship between several objectives of the study, it should be noted initially that many of the study variables have been treated together in some cases as will be demonstrated later.

Exhibit (D-1) Study variables(*)

Independent variables	Dependent variables
	(1) BMNCs' decision to invest in Egypt.
(1) Determinants and reasons for FDI.	(2) BMNCs' selection of methods of entry into Egypt's market (forms of investment)
(2) Egyptian environment (Egypt-specific characteristics).	(3) BMNCs' activities, policies and the potential expansion of their investment in Egypt.
(3) Egyptian policy (organisation and implementation)	(4) Impact of FDI
	(5) The general status of FDI in Egypt (performance and potential prospects,etc.)
	(6) Requirements for policy changes.

(*) Detail is to be found in point 2.5 regarding the measurements of study variablesin the next chapter, as well as the hypotheses formulated below.

1.2 Study Hypotheses

Based on both the objectives and variables of the current study, as well as the preceding literature review, the main hypotheses of the study can be outlined as follows:

Hypothesis (H1) concerning the determinants of FDI Decision(*)

H1/A: In respect of the reasons for FDI. For most firms, FDI decision is contingent upon several considerations whether relating to the host countries-specific factors, inducements by both the host and home governments, or relating to the firms-specific advantages, etc. While all of these factors are likely to have a significant influence on the firms' decision to invest abroad, the primacy of importance of these factors are arbitrary.

In the light of FDI theories - discussed earlier(+) - there are several factors which may influence FDI decisions taken by a firm. The market imperfections approach, for example, assumes that the decision of the firm to invest abroad can be explained as a move to exploit advantages which are not shared by local competitors. The departures from home market (where perfect competition is prevalent) may also occur because of e.g. the role of economies of scale, product differentiation, government policies in respect of taxes, tariffs, etc.

The locational approach suggests also a number of reasons for the firm's decision to invest in a given host market. Among these reasons: are seen to be for example: cost factors including labour costs and inducements by host government, investment climate factors such as general attitudes towards FDI, political stability, etc., in addition to market attraction. The geobusiness approach has assumed that FDI patterns and activities are contingent upon variables

(*) FDI decision in the present study involves both undertaking new or additional investment and selecting the form or methods of entry into the host market concerned.

(+) Detail to be found in Section (B).

such as country - specific (e.g disparities in natural and human resources, economic and socio-political environment, etc.) and motivation variables such as the relative competitive position of the firm, and so forth. Additionally, the internalisation, and the IPLC approaches have also proposed other factors which are likely to influence FDI decisions.

According to the empirical evidence (which was reported earlier), it has been argued that the role of the above factors seem to differ substantially not only from one country to another but it is also possible that different valuations may be given by the firms concerned to each factor. In other words, some empirical studies indicate that the role of cheap labour as a determinant of FDI is weak when investment in developed countries is considered, contrary to the case of investment in the developing countries. Moreover, host government inducements or incentives appear to play a lesser role in developing countries compared with the role of lower labour costs. At the same time, market attraction (size and growth) is singled out, in many cases as one of the most important determinants of FDI's decision(*).

As far as the present study is concerned, it has been assumed that:

"A BMNC's decision to undertake a new FDI in Egypt occurs or is motivated by a number a reasons related to sales/

(*) See for example tables (B-4), (B-5) and other evidence in Chapter (1) in Section (B).

profits, risk diversification, cost factors and other locational factors in addition to the inducements by the host and home governments".

"In order of importance, the reasons related to sales and profits potential are expected to play a considerably greater role when investment decision in Egypt is considered by a BMNC followed by: reasons related to cost factors and barriers to trade, host government pressures and inducements, reasons associated with risk, and reasons related to home government pressures".

In this connection, it should be noted that the above assumption means that the difference between the above reasons lie in their degree of influence or importance in relation to the FDI decision i.e."it is proposed that the reasons related to sales and profits be considered as first in significance followed by the other reasons i.e. it may be a risky proposition to assume that factors such as costs and barriers to trade, risks, etc. have no importance or influence on FDI decision taken by a given firm. In other words, while the above assumption stresses the primary importance of reasons related to profit and sales compared with the other suggested groups of factors, it has been also assumed that "no significant differences in importance exist between the reasons for FDI when decisions to invest in Egypt are considered by the BMNCs". As shown in exhibit (D-2) which portrays each group of factors under study in a more sophisticated form, it is possible that the

(*) See for example tables (B-4), (B-5) and other evidence in Chapter (1) in Section (B).

difference between the factors or reasons may exist in their primacy rather in their relative importance in relation to FDI decision.

Exhibit (D-2) Reasons for FDI decision

Reasons related to cost factors e.g.:

Overcoming tariff barriers.
Lower cost conditions (e.g. transport, taxes, interest rates, labour and materials, etc.)
Incentives offered by the government (e.g. tax holidays, customs and duties relief, etc.).
To take advantage of differences in technology and productivity, etc.

Reasons related to risk e.g.:

To ensure a continuous and secure supply of raw materials to the parent company.
To protect patents, trademarks, etc.
To avoid labour troubles or onerous national legislations at home.
To diversify markets.
Excessive competition in the home market.
Host government's guarantees against non-commercial risks.

Reasons related to sales and profit potential e.g.

To expand and develop new markets.
To utilize excess capacity, comparative cost advantages, economies of scale, etc.
Less competition or large market size existing in the host market.

Reasons related to home government pressures e.g.:

Political factors.
Home government's guarantee scheme for investment abroad.
Home government's anti-trust legislation making expansion difficulties at home.
Home government economic objectives (e.g. to encouarge exports, create new jobs, increase government revenue, etc.).

Reasons related to the host government pressures e.g.:

- The growth of protectionist policies (tariffs and non-tariff barriers which restrict exports there)

- Privileges and incentives provided to incoming foreign companies by the host government.

- Host government guarantees against non-commercial risk.

H1/B. Regarding determinants/factors affecting both the decision to invest and selection of the form of FDI and/or method of entry of BMNCs into the Egyptian market.

At the outset, it is clear that the present hypothesis is an integral part of or relates to the previous one. It is nevertheless thought that it may be useful to obtain an overall basis of comparison of the relative importance of factors and considerations relating to the selection of routes of entry into a developing host market such as Egypt. At the same time, it has been considered important to obtain a general comparison between the importance of Factors in marketing, economic, political and social climate in connection with the decision taken by BMNCs to invest in Egypt(*).

As demonstrated in the context of the literature and previous studies analysed earlier, it is held in numerous studies that MNCs employ several criteria when a decision to invest and select the method of entry into an overseas market is taking place or is being considered. In assessing an overseas market, some studies indicate the importance of factors such as the local factor cost properties, the level of industrial development, the host country's market size (as measured by the level of GNP or per capita income, the growth of GNP, etc.), business systems and commercial policies, etc. Other studies have emphasised that the most popular explanation of a developing country's propensity to

(*) The expected findings in this respect may help somewhat in relation to the development of the Egyptian investment environment in general.

attract FDI is the political stability. i.e. Political stability in a given host market has greater influence on the MNCs decision whether or not to invest in that market. Furtber-more, empirical evidence in some cases has suggested the importance of factors such as language and religion homo-geneity, social values, etc. in relation to the decision of FDI in host countries.

Moreover, it has been argued also that factors peculiar to the firms themselves (e.g. technological, personnel capabilities etc. of the firm, size of the firms, etc.) and advantages of the methods of entry into the foreign market such as control over operations, flexibility and exposure of the method to foreign market problems, etc.) are likely to influence the company's choice of methods to enter into a given market particularly when a variety of investment forms is permitted by the host government.

As far as the present study is concerned it has been assumed that: "while a variety of criteria and/or determinants relating to both country-specific and firms-specific characteristics, as well as the advantages of the method of entry into a given host market are likely to influence the decision to invest and the selection of the method of entry into that market, these factors seem to have different degrees of importance when investment decision and the selection of the method of entry into the Egyptian market is considered by the BMNCs". In other words, although the primacy of importance of the above factors for FDI decisions and for the selection of method of entry into the host market may not be the same, it is probable that the differences between the effects of these factors are not significant.

According to exhibit (D-3) (on following page), it has been assumed that:

1) "There are no significant differences in importance between the factors peculiar to the company, factors relatively independent of the company and its industry, and the advantages of the methods of entry in terms of their influence upon FDI decision and the selection of entry method into the Egyptian market. The factors within each group and each individual group of factors are likley to differ in order of importance".

2) "In order of importance, factors in marketing, economic, political and cultural environment are also probably to differ (from one group of factors to another and from one factor within each individual group to another) in their importance or influence on FDI decision and on the selection of method of entry into Egypt's market." "At the same time, it is expected that the differences of importance between these factors are not significant in relation to the decisions under consideration".

Exhibit (D-3) Determinantsfor selecting the method of entry and FDI decision in Egypt (*)

(A) Factors relating to the method of entry.

I. Factors peculiar to the company e.g.:

- The size of the Company
- The company's product line and its nature
- The volume of foreign business desired.

II. Factors relatively independent of the company and its industry e.g.:

- The number of foreign markets in which the company has representation
- Investment requirements
- Marketing costs

III. The advantages of each method of entry e.g.:

- Flexibility to enable the company to cope with the changes in the market environment
- Control over the operations

(B) Factors peculiar to the host country's environment affecting FDI decision.

I. Economic factors (market size, trade restrictions, etc.)

II. Political-legal factors (e.g. fractionalization by language, ethnic groups, past record of foreign investment expropriation , attitude towards foreign investment).

III. Cultural factors/determinants (e.g. communication system and transportation, language homogeneity, urbanisation level, religion homogeneity).

(*). Detail can be found in questionnaire no. (1) in appendix (D).

3) "In a developing country such as Egypt, the BMNCs may tend by and large to put more emphasis on the role of political factors rather than the economic and cultural ones in connnection with their investment decision in Egypt".

H1/C : In respect of the relative importance of incentives. In accordance with the early discussion of this matter and in relation to the preceding hypotheses,it has been argued that not all the incentives offered by the host governments appear to play a substantial role in connection with the decision of FDI. i.e. some types of incentives may have a lesser influence on FDI decision, while others appear to be of great importance.

It is nevertheless important to state that it is probably difficult to argue that the incentives offered by the host governments have no importance when a decision for FDI is considered even if some of the incentives do not affect the potential profitability of the investment venture.

As far as the present study is concerned, and taking into account that a wide range of incentives offered by the Egyptian government is evident in the 1974 policy statement - it has been assumed that:

"The incentives offered by the Egyptian government to attract FDI seem to differ substantially in their degree of importance when decision for investment in Egypt is being considered by the BMNCs.

The incentives programmes in general as currently undertaken by the Egyptian government do not respond either to the needs of the foreign investor or to the realisation of the national objectives which are aimed at through FDI".

<u>Hypothesis (2)</u>: Concerning problems encountering the implementation of BMNCs' marketing policies, <u>investment expansion and activities in Egypt</u>

On earlier occasions, it has been argued that there are a variety of factors in economic, cultural and political environment in developing host countries which mgiht influence the implementation of firms' marketing policies and investment growth and activities. Empirical studies provide evidence which suggests that inefficient infrastructural facilities (communications and transportation, energy etc.), the scarcity of qualified managerial and skilled labour force, government controls and measures imposed over e.g. pricing, foreign ownership, etc., language heterogeneity, and so forth are among the problems which may have substantial influence on MNCs marketing and investment policies in the developing countries. It has also been illustrated that most of the firms are very concerned about the rigid labour laws, the underdeveloped marketing systems aad institutions, low literacy level, limits to mass media opportunities for advertising because of e.g. low TV/radio ownership, etc. in the developing host states.

Accordingly, the present assumption seems to be this: "The BMNCs operating in Egypt may tend by and large to attach more importance to the influence of the infrastructural and communications and transportation problems, bureaucratic problems, government subsidy policies and controls over prices and lengthy negotiations relating to the implementation of marketing and investment policies". In other words, the previous problems are probably the most common obstacles operating against the BMNCs manufacturing in Egypt (either in relation to the implementation of their marketing policies or investment growth and other associated activities).

Hypothesis (3): In terms of the relevance of the Egyptian environment to serve effectively the FDI

Taking into account the previous assumptions together with the proposition that a firm's decision to undertake new or additional FDI in a given host country occurs only after a number of conscious decisions have been made among which is that concerning the overall viability of the country's environment, it has been generally assumed that:

"The Egyptian academic staff by and large are confident that the Egyptian climate (economic, political and cultural) is able to serve effectively FDI and foreign firms' activities". This assumption can be broken down into:

H3/A : The Egyptian economic climate (as measured by e.g. market size, geographic location, financial commitment, natural and human resources, etc.) is able to serve effectively foreign investment compared with many of the Third World Countries.

H3/B: The Egyptian political climate (as measured by e.g. the possibility of internal unrest, political factions, violence, foreign boycott, etc.) is generally stable compared with many of the Third World countries.

H3/C: The Egyptian cultural climate (as measured by e.g.

level of literacy, number of educated people, mass media availability, etc.) will enable it to respond to and serve satisfactorily the foreign firms' activities in Egypt compared with many of the Third World countries.

Hypothesis (4): Regarding the impact of FDI

To sum up, it has been illustrated earlier that, FDI can be seen as a two-edged sword in a given host country. The inflow of foreign capital, technology transfer, and other resources transfer affects through MNCs brings or creates benefits and costs to the host developing countries. Case studies on the host developing countries show that some countries have benefited substantially from FDI, while others have earned limited benefits. On the whole, statistical data coverage of FDI to developing countries demonstrates - to a great extnet - that the annual FDI flows to these countries grew at a fairly rapid pace over the last decade or so(despite the accidental break of the trend in some years).

Taking into account, the generally held arguments for and against FDI (as highlighted earlier), or ignoring the extent to which FDI can influence the host countries' overall development, which in turn seems to be contingent upon several factors (economic, political, etc.), it has been argued that developing countries keep trying to attract more FDI. There is evidence for this in the policies and practices, including inducements, of the governments of many developing countries. It is also apparent that developing countries will have to continue to rely on FDI as an instrument for providing economic and social benefits, and this in turn will probably be linked with a continuing desire to attract more FDI by providing more privileges and incentives to the foreign investors.

In the case of Egypt - as the earlier discussion indicates - the following hypotheses can be developed:-

H4/A: The overall effects of FDI on Egyptian economic and social development are probably seen by a large majority of the Egyptian elites(*) as positive. This view is probably shared by the executive managers of the state-owned enterprises. i.e. the overall attitudes towards FDI in Egypt is probably positive.

H4/B: Egypt will have to continue to rely on substantial capital inflows, technology and other resource transfer and social gains, in which areas FDI will probalby play an increasingly important role. i.e. In Egypt increasing demands will be made on FDI foreign firms to provide greater benefits where the economic and social development is partly dependent upon continued inputs of FDI.

H4/C: In order of importance, the Egyptian elites will possibly tend by and large to put more emphasis on the role of technological benefits of FDI to Egypt, followed by the economic benefits and then the socio-political ones. But on the whole, it is possible that

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(*) Refers to the academic staff.

there are significant differences in the importance of these various benefits as far as Egypt's development is concerned.

H4/D: Within BMNCs operating in Egypt, the generally held opinion of their executive managers is probably that Egypt has acquired several types of benefits (among which are capital inflows, job creation, technology, etc.) as a result of their presence there.

H4/E: While the role of FDI became the subject of controversy after the promulgation of the law 43 of 1974, Egypt has benefited at least to some extent from FDI.

H4/F: While the Egyptian elites (i.e. academic staff) on the whole probably acknowledge the potential benefits (economic, technological and socio-political) of FDI for the development of Egypt, they will probably regard as one of the most continuously important issues the classic criticisms or arguments against FDI/foreign firms activities, particularly in relation to the economic influences. At the same time, it is possible that the differences in opinion of the Egpytian elites towards the importance of various adverse influences of FDI/foreign firms activities on Egypt are significant.

H4/G: Whereas the cost of FDI is arguably unavoidable, FDI in Egypt will probably create numerous problems and areas of conflict between indigenous firms and foreign ones. More specifically, the indigenous firms have probably encountered several types of problems (in e.g. marketing, production, personnel, etc.) as a result of FDI in Egypt. It is also possible that many areas of conflict between the indigenous firms and their foreign counterparts have also been created as a result of the FDI in Egypt.

H4/H: In general, the impact of FDI is possible contingent upon numerous factors in host countries overall environment including for instance policies towards FDI size of FDI, etc.(eg.The larger the size of the invested foreign capital, the greater would be the benefits to Egypt).

Hypothesis (5): Concerning the Egyptian Policy: Organisation and implementation

In general, it has been demonstrated earlier that, FDI policies including incentives and practices etc. and the role attributed to them in the national development process varies in several aspects from one host developing country to another. Side by side with the general policies of FDI, some developing countries for instance, have designed policies with the particular purpose of accomplishing specific national objectives (e.g. to encourage export-oriented investment or import-substitution investment). Other countries have devised policies aiming at greater backward and forward linkages of MNCs with local enterprises, localisation of higher level/number of staff and work force employed by the MNCs. Furthermore, to eliminate the adverse impact of FDI and in turn to enhance their benefits potential, some developing host countries use performance-oriented policies designed not only to control the operations of MNCs but also to direct them toward specific industries for example. These performance-oriented policies have also been applied side by side with the incentives offered.

From the results of previous research presented in Chapter (2) and (3) in Section (B), it has been established that the impact of FDI on the development of developing countries is not only dependent upon the range of factors in their economic, cultural and political climate, but also on their overall policies toward FDI. In some cases, it has also been demonstrated that a substantial part of the role played by FDI in the developing host countries is contingent upon the form of investment permitted by the governments.

Based on the above discussion together with the previous investigation of FDI policies in some developing countries including Egypt, it has been assumed that:

<u>H5-1/A:</u> Despite the evidence that Egypt has to some extent gained benefits through the currently permitted forms of FDI which are now limited to joint ventures and free zones investment, these forms are not accompanied by the willingness required to realise fully the national objectives aimed at through FDI.

<u>H5-1/B</u>: Being aware of the growing competition among developing countries for FDI and the probable tendency of most foreign firms to be increasingly selective regarding the forms most appropriate to their

objectives, if one compares the forms available in all the other developing countries with those permitted in Egypt, one would conclude that the Egyptian government should diversify the forms of FDI in order to attract more investment. Thus, the greater the diversification of the forms of FDI in Egypt (i.e. by permitting other forms apart from joint venture; for example), the greater the number of MNCs and/or the size of FDI there would be in Egypt.

H5-1/C: If the proposition is accepted that the form of foreign presence, i.e. whether as a joint venture, wholly-owned subsidiary, by licensing or consultancy, is as significant a factor as the size of the investment, the Egyptian government should allow foriegn investors to establish a wholly-owned subsidiary as long as it has already admitted foreign investment whether in a form of joint venture, licensing,etc.

H5-1/D(*): Taking into account that the importance of controlling foreign operations is one of the primary concerns of most - if not all - foreign firms, together with the currently permitted forms of FDI by the Egyptian government, it is possible that most of the BMNCs operating in Egypt have entered into the Egyptian market through joint ventures (see the alternative routes/methods of entry in appendix (D) questionnaire no. (1)).

(*) This hypothesis is concerned with inland investment only.

H5/2: In respect of GAFI's organisation and practices. In this connection it has been assumed that "because of the lack of sophisticated experience there are probably several gaps in relation to GAFI's organisation and practices toward many aspects of FDI". These gaps lie in aspects such as:-

1. The FDI codes (i.e. law no. 43 of 1974).
2. The administrative procedures, regulations, etc. in relation to approving FDI proposals.
3. Promotion policies.
4. The organizational aspects, including GAFI's organizational structure, relationships with its official representatives abroad, centralization/decentralization of authority, etc.
5. The conditions/the instruments of incentive policies (fiscal and non-fiscal, financial and non financial) and fields of application of investment incentive policies, etc. (see H1/C).
6. Criteria for approving the FDI proposals, as well as pre-conditions and performance requirements, and feasibility of incentives etc.
7. Selection, channelling and directing FDI proejcts.
8. Technology transfer (in terms of e.g. requirements, conditions and appropriate choice).

Hypothesis (6): Regarding the general status of FDI - present and potential

On earlier occasions, it has been argued that the impact of FDI in a developing country (such as Egypt) seems to be contingent upon several factors among which are the country's specific factors including the prevailing policies and practices towards FDI(*). i.e. Some developing host countries with, for example, limited market potential, small resources and without an effective administration and adequate policies towards FDI, etc. may not be able to obtain all the possible benefits from FDI. Taking into account the foregoing hypotheses it has generally been assumed that "while the present contribution of FDI in Egypt is relatively modest, the overall impact of such investment (present or potential) is also dependent upon numerous factors relative to e.g. Egypt's policies (forms of FDI, measures and incentives, practices and so forth), and environment". "Thus if there is to be an improvement of FDI's present and potential contributions, the need for changes in policy and the investment climate, etc. is indisputable". i.e. the contributions of FDI in Egypt will increase when the currently undertaken policy and practices and the climate for such investment is improved, and other performance-oriented policies concerning the activities and practices of foreign firms, etc. are considered.

(*) The influences of MNCS' practices and policies and other considerations are ignored in this hypothesis.

CHAPTER 2

FIELD RESEARCH DESIGN AND METHODOLOGICAL CONSIDERATIONS

Introduction

Taking as a whole the objective of the present study together with its hypotheses, the analysis attempted on FDI in Egypt uses various sources of information (secondary and primary) as shown earlier in figure A-3. It also covers several aspects of FDI (forms, flows and impact, determinations, etc.). Different approaches have also been used to examine some of the study assumptions. In seeking the attitudes towards FDI, for example, the executive managers of the state-owned enterprises, the academic staff and GAFI senior decision-makers were interviewed. Accordingly, it is perhaps interesting to mention that the present study is arguably the first attempt to cover all of the previously outlined areas of FDI with the use of different approaches in the case of Egypt since law no. 43 of 1974 was enacted.

Generally speaking, the overall objective of the present chapter is to describe the field research methodology undertaken in order to examine the hypothesis formulated in the preceding chapter. Meanwhile, it may prove useful at the outset to note that the field research which was implemented during the second half of 1984 is based on:-

(1) Mail questionnaires administered to: (a) a sample of the BMNCs operating in Egypt (see questionnaire no. (1) in appendix D) and(B) GAFI's official representatives abroad in collaboration with the Egyptian-British Chamber of Commerce

in London (see questionnaire no. (4) in appendix D)(*).

(2) Direct personal interviews - guided by three structured questionnaires with: (a) the Egyptian academic staff in two major Egyptian universities namely Cairo and Alexandria (see questionnaire no. (2) in Appendix D) (b) GAFI and GOFI senior decision-makers in Cairo (see questionnaire no. (5) in appendix D), and (C) the executive managers of the state owned enterprises (i.e. public sector companies) in Egypt as shown in questionaire no. (3) in Appendix (D).

In this respect, it may be useful to mention that secondary sources of information were used side by side with primary sources to help to a certain extent in examining some assumptions i.e. for (a) analytical convenience, (b) the time lag between publishing some types of data needed and the period during which the field research was conducted, in addition to (c) the sensitivity of collecting the most up-to-date data from GAFI, it has been considered useful to use the most available historical information (which in

(*) Personal interview was also conducted twice (before and after administering the questionnaire) with the managing director of the Egyptian-British Chamber of Commerce.

some cases seems to be out of date) together with those collected through the field research in examining some of the study hypotheses.

Having considered the above introductory points, the remaining points concerning the methodology which has been followed in examining the study hypotheses can be outlined briefly under the following headings:

2.1 Study Samples

Two bases of sampling were used to select the research sample. The first was drawn at random (i.e. probability base) from:

A. Three lists of the Egyptian academic staff working at Cairo and Alexandria Universities.

B. A list of BMNCs operating in Egypt.

C. A list of the state-owned enterprises.

D. A list of GOFI senior decision-makers.

The second was drawn at non-random (i.e. non-probability) from:

A. GAFI's senior decision-makers.

B. GAFI's official representatives abroad.

Four methods of sampling have been also employed. As shown in exhibit (D-4), there are multi-stage/or multi-phase method, simple random sample, stratified random and census methods.

Exhibit D-4 - Research Population and methods of samples used

Research Population	Sample Method[1]
(1) BMNCs operating in Egypt	Multi-stage/multi-phase.
(2) Egyptian Academic Staff[2] in Cairo and Alexandria Universities.	Multi-stage (judgement in selecting the academic institutes + quota in choosing the type of respondents + simple random in terms of selecting the respondents interviewed).
(3) GAFI's senior decision-makers	Census.
(4) GOFI's senior decision-makers	Simple random
(5) GAFI's representativs abroad	Census.
(6) The Egyptian state-owned enterprises	Stratified random sample.

(1) For more detail see for example:

A. Wilson. The assessment of industrial markets .London: Associated business programmes Ltd., 1973 , pp.109-131.

(2) Possession of Ph.D. was mainly used as a pre-determined characteristic for selecting the respondents. Additionally, the Universities of Cairo and Alexandria were selected as the largest and oldest Universities in Egypt.

2.2 Sources of selecting study samples

As exhibit (D-5) demonstrates, the research samples were drawn from various sources including the directory of public companies and agencies in Egypt, the directory of MNCs, records and other official publications, etc.

Exhibit (D-5) Sources of selecting the research samples

Research Population	Sources
(1) BMNCs operating in Egypt	1. The commercial departments' reports - British Embassy in Cairo, 1983 (which has been provided by the department of Trade and Industry - CBI/ London 1984). 2. The Journal of the Egyptian-British Chamber of Commerce - various volumes. 3. Review of selected literature e.g. The Directory of multi-national enterprises prepared by J. Stopford, et.al. 1980. 4. An international conference on joint venture in Egypt - organised by Monadnock, London, May 1983. 5. The AngloEgyptian Seminar organized by the Egyptian-British Chamber of Commerce, London, November 1983. 6. GAFI's Cairo records.
(2) Egyptian academic staff	- The records of secretary offices of the academic staff affairs in each faculty surveyed, 1984.
(3) Egyptian state-owned enterprises	- Al-Ahram al equtisadi: the directory of public companies and agencies, 1978.
(4) GAFI's Cairo and GOFI senior decision-makers	1.The organizational charts of both GAFI & GOFI, 1982. 2.A personal interview with two members of GAFI and GOFI's boards of directors in April 1984.
(5) GAFI's official representatives abroad.	- The official guide to investment in Egypt - GAFI 1982.

2.3 Sizes of the research samples and rates of response

With the different approaches and samples employed in the present study, the field work and the analysis involved 88 direct personal interviews guided by structured questionnaires in three categories: 49 interviews with the Egyptian academic staff, 30 interviews with the executive managers of the state-owned enterprises and 9 interviews with the senior decision makers of both GAFI and GOFI. This is in addition to 25 mail questionnaires of which 19 from the managing directors of BMNCs operating in Egypt and 6 from the official representatives of GAFI abroad and the Egyptian-British Chamber of Commerce. In this connection, Table (D-1)(*) portrays with some explanatory notes, the number of firms and/or individuals in the research population, the number of firms and/or respondents in the research samples, and the rates of response(+). Finally, it may be useful to mention that the rates of response received are generally encouraging and questionnaires completed were useable.

2.4 Profiles of firms studied and the U.K. direct investment in Egypt

It has been considered helpful to provide a summary of the characteristics of the particular firms studied. Thus, profiles of the firms surveyed can be demonstrated as follows:

(*) The questionnaires used in the field research appear as appendix (D).

(*) Overleaf

Table (D-1) Research sample sizes and rates of response.

Research Population	No.of individuals in the main population	No.of firms/ respondents in the sample	Rate of Response (%)
(1) BMNCs operating in Egypt - in September 1983 of which:	136		
BMNCs operating in Egypt from which the study sample drawn after excluding commercial banks and other non-industrial services)	71	53	34
(2) Egyptian academic staff (in Cairo/Alexandria Universities) of which: (*)	120	60	82
a. University of Alexandria, Faculty of Commerce	40	30	(93)
University of Cairo - Faculty of Commerce & the faculty of economic and political science.	80	30	(70)
(3) GAFI & GOFI Senior decision-makers	11	11	82
(4) GAFI's official representatives abroad(+) and the Egyptian-British Chamber of Commerce -London.	11	6	55
(5) The Egyptian state-owned enterprises of which:-		30	100
a. Food and beverages industry sector	21	8	100
b. Spinning, weaving and garments manufacturers sector(**)	29	7	100
c. Export/import sector	8	3	100
d. Others	-	12	100

(*) Members of academic staff who are currently working in the Arabic countries/abroad have been excluded.

(+) GAFI's official representatives account for ten members (in Abu-Dhabi, Canada, France, Japan, Kuwait, Saudi-Arabia, Sweden, U.K., U.S. and W. Germany).

(**) This sector involves 30 companies, but for analytical convenience the company which is producing textile machinery and equipment has been excluded.

(1) In respect of the BMNCs operating in Egypt. Some salient characteristics of these companies with some supplementary data regarding the British direct investment in Egypt are listed in table (D-2) below.(*) In this respect it may be important to note that most of the BMNCs studied operated in several industrial fields such as chemicals, and chemical products, electronics, petroleum and petroleum products, pharmaceutical products, metals, etc.

(*) For Table (D-2) see the following page.

Table (D-2) Profile of BMNCs studied and the size of the U.K. direct investment in Egypt.

(value in £ million unless otherwise mentioned)

Firms	Sales/Turnover	Total Assets	Total number of employees	Year
(A)	25,755	28,860	153,300	1981
(B)	1,662	788 N	79,200	1981
(C)	582	588 F	11,700	1981
(D)	2,385	1047F	8,100	1981
(E)	6,581	5211F	132,400	1981
(F)	4,949	4,048	189,000	1982
(G)	40,602	13,184N	166,000	1981
(H)	1,395	n.a.	52,700	1981
(I)	1,393	932 F	4,500	1981
(J)	493,814	n.a.	1,900	1981
(K)	n.a.	$2,153	n.a.	March 1984
(L)	5,300	n.a.	6,688	August 1981
(M)	127	n.a.	1,549	1982
(N)	267.7	n.a.	9,106	1981
(O)	239	n.a.	5,000	1982
(P)	2,466	n.a.	n.a.	1982
(Q)	3,221	n.a.	131,757	1982
(R)	83,160	n.a.	1,354	1982
(S)	51	n.a.	2,350	1982

(1)Total UK direct investment in Egypt = £E 9818 million	1981
(2)Total foreign capital investment in Egypt = £E 165010 million	1981
(3)(1) ÷ (2) = 5.9%	1981
(4)Total UK capital assets in the free zones = £E 19249	1981
(5)UK's share in total capital assets in the free zones = 6.13%	1981

F = foreign N = net £ = £E 1.52 April 1982 - Cairo stock and foreign exchange market.

<u>Sources</u>: (1) data on BMNCs drawn from: <u>Key British '83 Enterprises - Britain's top 20,000 companies,</u> London, Dun & Bradstreet Ltd. 1983, vol.1 & 2, (excl. data on co. (K) which is the subject of a separate special report).
(2) Data on UK direct investment in Egypt drawn from: CAPMS, <u>op.cit.</u>, pp.46-49, pp.160-203 and p.67.

(2) With regard to the state-owned enterprises. According to the information given by the interviewees during the implementation of the field research table (D-3) displays two main features of the firms surveyed including the types of activities.

Table (D-3) Profile of the state-owned enterprises surveyed.

Sector	No. of Surveyed	Description of Degree of diversif- ication (*)	Average No.of Employees	Year
Food processing & beverages	8	Moderate	10	1984
Spinning & weaving & garments manufactures	7	Moderate	8	1984
Export - import	4	-	5	1984
Others including: electronics, const- ruction(+),chemicals and metals	11	Limited	18	1984

(*) Measured according to the number of products (product lines) and on the basis of the assumption that:- fewer than an average of 5 different product = limited degree of diversification, and from 6 up to 10 = moderate degree.

(+) Includes two companies which produce construction machinery and equipment.

Source: Field research.

2.5 Measurements of study variables

The field research was carried out primarily on the basis of five structured questionnaires by means of which the study variables (V) have been measured as illustrated below:

V1: Reasons for FDI. These variables have been measured through questions involving five possible groups of reasons for FDI (e.g. reasons related to risk, sales and profit potential, etc.). The executive managers of BMNCs were asked to rank in order to importance the reasons within each group which were relevant to their companies' decision for investment in Egypt (see question(q) no.1 which appears in questionnaire(qu)no.1 Appendix D).

V2: Determinants of FDI. First the determinations of FDI have been classified into three groups which include a number of factors peculiar to Egypt's specific characteristics (marketing/economic, political and cultural) i.e. locational factors. As demonstrated in q.6 which appears in qu.1, the executive managers of the BMNCs were then asked to rank in order of importance any number of factors - within each group - that have been considered by their companies when a decision whether to invest in Egypt is considered.

V3: Factors and considerations for selecting the form of investment and/or method of entry into the Egyptian market. A number of possible factors related to firms-specific factors, the advantages of the methods of entry, and other factors relatively independent of the firm and its industry were given. Then the respondents were required to rank in order of importance the factors that their companies used in selecting the method/path of entry into the Egyptian market (see q. no.6 in qu(1). Additionally, each respondent was required to outline - on the basis of an open ended question - the reasons behind his company's choice of a certain method. At the same time, a number of broad factors were also given in the questionnaire and the respondents were asked to rank in order of importance those factors that related to their companies choice of the method of entry (see q nos. (4) and (5) in qu. no. (1).

V4: Methods of entry into the Egyptian market[1]. as shown in q.3 in qu (1), a number of alternative routes or paths for entry into foreign markets were suggested. Then each respondent was asked to indicate the relevant methods/ paths followed by his company when entering into the Egyptian market.

V5: BMNCs types of activities. The types of BMNCs' activities were measured directly through information provided by each respondent regarding its company's chief activities or products (see part one (CV) in qu. no.1).

V6: Egypt's environment. The relevance of the Egyptian environment towards serving FDI and foreign firms activities etc. has been measured according to different approaches (as well as using two types of information (i.e. secondary source information as shown in section (C), and the primary one) as follows: (A) the executive managers of the BMNCs were required to indicate the greatest problems (as well as the facilities they required including the absence of required facilities in Egypt), that their companies have encountered in terms of both implementing their marketing policies, and expanding their investment and related activities (see q. nos. 8 and 10 in qu. no.1).

(B) The Egyptian academic staff were asked to indicate whether or not the Egyptian economic, political and cultural climate is able to serve effectively FDI and foreign firms activities as shown in q. no. 7-6 in qu. no(2).

(C) The senior decision-makers of GAFI and GOFI have been also asked to refer to any obstacles that have been encountered in the implementation of FDI's policy and performance in Egypt since 1974 (see q. no.2 and 4 in qu.no.5).

V7: Impact of FDI. On the basis of secondary sources the impact of FDI on Egypt's development has been measured or assessed as demonstrated in chapter two in Section (C). Additionally, in measuring the influences of FDI the following approaches have been followed in the field research:-

(A) A number of benefits which can be attributed to FDI were suggested, and then the Egyptian academic staff were asked to indicate how important they regarded each type of benefit within three main groups of benefits, (economic, technological, cultural and socio political) on the basis of a four-point scale: very important, fairly important, of some importance and of no importance. Moreover, the respondents were also required to rank in order of importance three broad areas of benefits of FDI (economic, technological, and cultural and socio-political. The questions in which these benefits are mentioned in q. nos. (2) and (3) in qu.(2).

(B) The executive managers of the BMNCs were also asked to rank in order of importance some specific benefits which may be acquired by Egypt as a result of the BMNCs presence there. The questions employed in this connection appears as q.9 in qu. no. (1).

(C) With regard to adverse influences of FDI, the same respondents and the same method as used in(A) above were also employed in measuring the adverse economic, technological and cultural-political impact of FDI and foreign firms activities in Egypt (see q. nos. 4 and 5, in qu. no.(2).

(D) In addition to (C), the executive managers of the state-owned enterprises were asked to rank in order of importance certain problems that their companies have encountered resulting from FDI in respect of (1) production, (2) marketing, (3) personnel and (4) finance). The type of problems in each area of activity are shown as q no.2 in qu. no.3. Furthermore, the respondents in terms of e.g. the use of mass media, pricing, etc., were also asked to indicate some possible areas of conflict which have arisen between their companies and their foreign counterparts since 1974. These areas of conflict appear in q. no.3 in qu. no. (3). Finally, the respondents were required to rank in order of importance five broad types of problems such as production problems, marketing, import/exports,e tc. that their companies may face after a period of five years (see q. no. 4, in qu. no.3).

V8: Attitudes toward FDI. This variable was measured as follows: the academic staff and the exectuive managers of the state-owned firms were asked to indicate their opinions towards the overall effects of foreign investment on the Egyptian economy according to the following scale (see q. no.1 in qu. nos (2) and (3)):-

Very positive	Positive	don't know	negative	very negative

V9: Problems facing the implementation of BMNCs' activities etc. in Egypt see V6A.

V10: The Egyptian policy. This variable (which involves number of sub-variables) has been measured as follows:

(A) An investigation has been carried out of the 1974 policy statement i.e. law no.43 of 1974 as amended by the law no. 32 of 1977 concerning the investment of foreign and Arab capital and free zones (see these laws in Appendix B). This is in addition to the analysis of a number of laws relevant to export/imports policies and organization of commercial agencies,etc. as pointed out in figure A-2 - Section A).

(B) The incentives and measures,etc. offered/imposed by the government of Egypt have been measured also on the basis of analysing the law no.43/1974. In addition, the Executive managers of the BMNCs were asked to indicate which incentives, facilities and guarantees were most important to their companies. In other words, the respondents were required to rank in order of importance a number of incentives facilities, etc. relating to investment in Egypt (these types of incentives are shown in q. no. 2 in qu. no.1).

(C) The current practices and organization of GAFI were measured as follows:

1. The senior decision-makers of both GAFI and GOFI were asked to indicate: (a) the major methods employed to reach foreign investors and encourage them to set up investment in Egypt i.e. to promote or sell investment opportunities in Egypt. In this connection a 5-point scale was used corresponding to a number of possible methods in order to explore the frequency of use of each alternative method as shown below(*):

Method	Scale				
	always	usually	sometimes	rarely	never
Advertising through international press/ magazines visits abroad, etc.					

(b) The respondents in (a) were asked to point out the main reasons behind the tendency of both national and foreign investors to establish storage and servicing projects rather than manufacturing plants in the free zones and to indicate also any difficulties that the execution of the FDI policy has encountered since 1974 (see q. no.2 and 5 in qu. no.5).

(*) Detail is to be found in q. no. (1), qu. no.5.

2. The official representatives of GAFI abroad (in collaboration with the Egyptian-British Chamber of Commerce) were required to indicate the following:

a. Any plan that has previously been determined in terms of promoting and attracting foreign investment in Egypt (see q. no.4 in uq. no. 4 which appears in Appendix D).

b. The types of facilities and requirements that should be exacted (by GAFI) to enable them to implement their activities effectively, as well as any aspect of great importance related to their relationship with GAFI (see q. 5 and 6 in qu. no. 4).

c. The problems/obstacles either they have encountered or discussed relating to dealing with and reaching foreign investors (see q. no.1, 2 and 3 - qu. no.4).

3. An investigation of law no.43 of 1974, law 32 of 1977, and decree no. 335 of 1977 has been carried out to explore the types of responsibilities, activities, relationships, etc. of GAFI. This is in addition to the analysis of the organisational structure of GAFI, the relationship between GAFI and the other governmental agencies or ministries concerned with FDI in Egypt.

4. The forms of FDI allowed were measured on the basis of law 43/1974 and the other related decrees noted earlier(*). At the same time, the alternative methods of

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(*) See in this connection the investigation of the Egyptian policy in Chapter (3) in Section (C).

entry into the Egyptian market as already illustrated (see V4) have also been employed in this respect. The analysis of the present situation of FDI (i.e. relating to performance, distribution by type of projects, activities, size of investment etc.) has also helped in measuring the success or failure or GAFI's current practices(**).

VII: The general status/achievement of FDI since 1974. This variable was measured basically on the basis of analysing several annual reprots published by GAFI, GOFI, governmental agencies. This is in addition to some relevant studies which have been undertaken by international bodies or scholars and researchers, etc.(**). Furthermore, criteria such as size of investment projects, total capital inflow, percentage of FDI proejcts distribution by the type of activities, geographic areas, and so forth have been also used in this regard (see also q. no.3 in qu. no.5).

V12: The relationship between the impact of FDI and the overall environment, government control of FDI and foreign firms activities, the forms of FDI allowed, etc. In this connection it should be noted that the current study is also interested in exploring the opinions of the academic staff

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(**) This analysis has been outlined in Chapter (2) in Section (C).

towards the contingency of the impact of FDI on variables such as government control, forms of FDI and so forth(+). Thus, the academic staff were asked to indicate how far they agreed with some propositions or statements such as: the impact of foreign investment on Egyptian economic development etc., is contingent upon the government's direction of foreign firms' activities, etc. (other statements appear frequently in q.7 in qu. no.2). Three possible responses were given (Yes, No, Not Sure) with an open-ended question to permit elaboration or any comment to be made by each respondent.

Finally, in the light of the current study's objectives it has been considered helpful to examine the opinions of both the academic staff and the executive managers of the state-owned enterprises towards a number of suggested developmental courses of action and/or performance oriented policies (as a part of the overall need for policy changes towards FDI in Egypt) as follows:

(1) The academic staff were required to indicate whether or not they agreed - on a 5 points scale - with some suggested actions which could be taken by the government to improve the contribution of FDI as illustrated below:

(+) Any findings from examination of this relationship may help to some extent in terms of establishing the need for policy changes and assessing the overall position of FDI in Egypt.

* Require all foreign firms to:

- Export a specified percentage of production to sustain the balance of payments.

strongly agree	agree	uncertain	disagree	strongly disagree

etc.

* Require the government to:

- Allow 100% ownership of foreign subsidiary

etc.

These suggested developmental courses of action in addition to other types of proposals appear in q. no.(6) and no. (7) in qu. no. (2).

(2) The executive managers of the state-owned enterprises were required to indicate the degree of importance they attached to some suggestions according to which the state-owned enterprises could react to and cope with the competition potential or eliminate any negative impact of FDI on a 4-point scale as demonstrated in q. no.(5) in qu. no. (3) e.g.:-

* - providing the state-owned enterprises with the same privileges, incentives, etc. that have been granted to foreign firms

very important	fairly important	of some importance	of no importance

* More freedom regarding shaping the employment, pricing, financial, and product policies.

etc.....

2.6 Methodological considerations and limitations

It is probably useful to conclude the current chapter by listing the following points relating to the methods used to provide possible generalizations of the particular findings derived from the study:-

1) The closed questions and both open-ended and straight forward types of questions were always used in order to obtain the greatest benefit from each type of question.

2) In order to eliminate somewhat the possibility of order bias especially with regard to the more sophisticated questions (e.g. the question on the impact of FDI), the respondents were required to answer an aggregate question relevant to the same topic under examination.

3) In terms of the open-ended questions, an attempt was made to classify the responses provided to obtain the most common opinion so that the answers received would prove fruitful in relation to the study's objectives.

4) As mentioned earlier, in seeking examination of some hypotheses, secondary sources of information were used side by side with the field survey. This was in addition to the use of different approaches when, for example the attitudes towards FDI or the relevance of Egypt's investment climate etc. were examined. In this connection, different points of view (.e.g.

those of the academic staff, the executive managers of the state-owned firms, BMNCs, etc.) besides the published materials were examined.

5) As stated earlier, for reasons such as analytical convenience and the inter-relationships between the study variables, some assumptions were treated together.

6) Because the study samples are relatively small in some cases, a word of caution must be mentioned to the effect that it is not easy to generalize the study findings (particularly those related to the BMNCs).

7) Once the information collected and other published data were classified and tabulated, an attempt was made to survey the statistical techniques to find those are the most appropriate for testing and analyzing the study assumptions (e.g.):-

(a) Nominal statistical techniques were used as appropriate for the nominal and sometimes for the ordinal information.

(b) Ordinal techniques were used as suitable for the ordinal information.

(c) Ratios/percentages techniques were used as appropriate for investigating the statistical data collected through secondary sources, as well as some other ordinal and nominal information derived from the field research.

(8) For statistical inference, a frequently recommended sampling fraction is 1/10 of the population[2]. Thus, it is perhaps useful to note that in the light of the present study sample size of each type of population studied, the rates of responses received can be considered as encouraging. Furthermore, for both large and small samples, the statistical techniques applied were those appropriate to the sample size.

(9) Since certain problems may arise related to small sample size, it was considered helpful to use more than one statistical technique to eliminate these problems as far as possible.

(10) Because the present study is arguably the first attempt to cover several aspects of FDI in Egypt since the 1974 policy was initiated, and because the most up-to-date data required has not been available owing to the time lag between undertaking the research and the publication of required data, a cautious approach must be adopted in interpreting some of the research findings.

2.7 Study Approach

Broadly speaking, it has been reported earlier that different approaches have been adopted in seeking, for instance, attitudes towards FDI, requirements for policy changes and so forth. As far as the present study is concerned, it is probably useful to note that among the wide range of FDI theories/approaches - as demonstrated in Section (B), it has been considered appropriate to adopt the locational approach as relevant to the purposes of the research (where most of the study variables and objectives etc. are related to the host country-specifics rather than to those of MNCs).

References

(1) The idea of structuring the routes of entry drawn from: G.D. Newbould, et.al., Going International: the experience of smaller companies overseas, _op.cit._, pp. 43-46.

(2) D.J. Champion, Basic Statistics for Social Research, Pennsylvania: Chandler Publishing Co. 1970, p. 15.

Section (E)

EMPIRICAL EVIDENCE

Highlights for Section (E)

This Section presents the analysis of the field study findings. It is organized generally according to the main sequence followed in Section (B) and (C) earlier. As shown below, it is divided into three main chapters. Chapter One introduces the empirical evidence relating to the reasons and determinants of FDI, Chapter Two outlines those results regarding the impact of FDI, and Chapter Three deals with the need for policy change :-

Chapter (1) Determinants of FDI.

Chapter (2) Impact of FDI.

Chapter (3) Requirements for policy change .

CHAPTER (1)

DETERMINANTS OF FDI

Introduction

At the outset, the current chapter presents the analysis of the field study findings concerning the determinants of FDI (decisions to undertake FDI and choose its form). As argued earlier the decision of a company to undertake a new FDI in a given country occurs on the basis of a number of considerations concerning e.g. the choice of a particular location, the size and form of FDI, etc. Theories of FDI and previous research findings pointed out a wide range of determinations and reasons are likely behind the companies' decisions for FDI and other related or interdependent decisions such as the selection of the form of such investment. Taking into acount the contribution of FDI theories and previous studies, etc. it is a rather complex task for a given field research to cover in a general way the scope and meaning of all the types of the determinants of FDI. Not only because the decision of FDI involves implicit - or even explicit - considerations which are more complex on the international dimensions compared with the domestic one, but also because of factors associated with questions such as:

1) How often should a company state its objectives/ motivations in response to the research requirements? and in which way should such objectives or reasons etc. for FDI be examined or reported ?

2) Who should be approached - the headquarter or the subsidiary of the firms under study, the executive managers or the members of the board of directors,etc ?

In addition to the above problems, studying reasons and motivations of FDI' decision is arguably one of the most sensitive undertakings in view of the possibilities that any resulting criticisms influence the firms' prospects.

In addition, reasons for FDI do not necessarily lend themselves to expression in an economic or financial terms.

Despite the above issues, active co-operation has been given by companies during the course of the present study. Also it must be admitted that numerous attempts to establish general determinants of FDI have been undertaken and have succeeded in providing answers to questions such as why a company undertake decision for FDI, at what time, in which location, etc.

Having considered the literature review discussed earlier together with this introduction and the study objectives the present chapter is concerned with examining the study hypotheses nos. (1), (2) and (3) mentioned earlier as follows:

1.1 Reasons for FDI

The following analysis represents an examination of H1A concerning the reasons (or motivations) for FDI decision as perceived by 19 BMNCs operating in Egypt. According to the study methodology highlighted earlier, table (E-1) shows an overall comparison of the relative importance of each reason (and group of reasons) for the BMNCs' decision to undertake a new FDI in Egypt. More specifically, the table presents: (a) total number of responses corresponding to each reasons for FDI, (b) the possible number of responses in which the reason was not cited by the respondents, (c) weighted score of each reason, (d) the mean or average ($\bar{X}$) of weighted scores, and (e) the order of importance of each reason.

In this connection, it is probably important to note that the weighted scores have been calculated on the basis of both the number of responses and the order in which each reason cited appears in table (1) in appendix (E) as follows:

Each time a reason was considered by a respondent as number one in order of importance, it was multiplied by 7, as number two it was multiplied by 6, as number three it was multiplied by 5 and so on. Then, by summing up the weighted scores over each reason within groups a total weighted score was given for that reason. Consequently, rank in order of importance is cited opposite each reason, as well as ($\bar{X}$) of scores for each group of reasons as shown in table (E-1) on the following page.

Table (E-1) The reasons and/or motivatiosn behind the BMNCs' decision to undertake investment in Egypt.

(Number of firms/respondents (N=19))

Reason	Total no.of responses (out of 19) (1)	Possible no. of responses in which the reason was not cited (2)	Weighted Score (3)	Order of Importance (4)
I. Reason related to cost factors:				
Overcoming tariff barriers	10	9	48	(4)
Lower cost conditions (e.g. trasnport, taxes, interest rates, labour, raw materials, etc.)	13	6	72	(3)
Incentives offered by the government (e.g. tax holidays, customs and duties relief, etc.)	15	4	89	(1)
To take advnatage of differences in technology and productivity, etc.	14	5	75	(2)
Others	10	9	10	(5)
$\bar{X}_I$	-	-	58.8	-
II. Returns related to risk:-				
To esnure a continuous and secure supply of raw materials to the parent company	10	9	37	(5)
To protect patents, trademarks, etc.	8	11	29	(6)
To avoid labour troubles or onerous national legislation at home.	9	10	45	(4)
To diversify markets.	15	4	96	(1)
Excessive competition in the home market	14	5	73	(2)
Host government guarantees against non-commercial risks	10	9	49	(3)
Other	3	16	3	(7)
$\bar{X}_{II}$	-	-	47.4	-
III. Reasons related to sales and profit potential:				
To expand and develop new markets.	17	2	111	(1)
To utilize excess capacity, comparative cost advantage, economy of scale, etc.	14	5	78	(3)
Less competition or large market size existing in the host country	16	3	96	(2)
Others	8	11	8	(4)
$\bar{X}_{III}$	-	-	73.2	-
IV. Reasons related to home government pressures:				
Political factors	8	11	41	(3)
Home government's guarantee scheme for investment abroad.	11	8	59	(2)
Home government's anti-trust legislation causing expansion difficulties at home.	7	12	29	(4)
Home government's economic objectives (e.g. to encourage exports, create new jobs, increase government revenue, etc.)	14	5	91	(1)
Others	3	16	3	(5)
$\bar{X}_{IV}$			44.6	-
V. Reasons related to the host government pressures:				
The growth of protectionist policies (tariffs and non-tariffs barriers which restrict exports there).	13	6	68	(3)
Privileges and incentives provided to incoming foreign companies by the host government.	14	5	85	(1)
Host government guarantees against non-commercial risk	12	7	77	(2)
Others	3	16	3	(4)
$\bar{X}_V$	-	-	58.2	-

Based on table (E-1), the following major points can be highlighted:

(1) While all the reasons for FDI under examination have been taken into account by the BMNCs when the decision to invest in Egypt is considered, (see columns 1 and 2), it is clear that different valuations have been assigned to each reason. i.e. it appears that there are reasons which tend to play a greater role compared with other reasons in relation to the decision undertaken by the firms surveyed to invest in Egypt e.g. expansion and development of new markets, competition or large market size existing in Egypt (i.e. the host country) are singled out by most firms as the most important reasons, followed by reasons such as home government objectives and incentives offered by the host government. Other reasons e.g. political factors, ensuring and securing supply of raw materials to the parent company etc. possessed a lower degree of importance.

(2) A comparison between the five groups of reasons examined on the basis of $\bar{X}$ as an arbitrary factor reveals that reasons related to sales and profit potential are first in order of importance followed by reasons related to the desire to benefit from differences in cost factors and technology, host government inducements/pressures, risk avoidance and home government pressures.

(3) As argued earlier, it would be neither realistic nor meaningful for one - under certain conditions - to ignore the importance of the growth of protectionist policies i.e.

trade barriers or protection of patents and trademarks as reasons for FDI's decision. Thus, to determine whether or not there are significant differences of importance between the reasons for FDI under study, it has been considered relevant to carry out the following statistical techniques as based on table (E-1): (A) Kruskal-Wallis One-Way analysis-of-variance (H), and (B) the analysis-of-variance for unequal sample sizes (ANOV). As for H-test, table (E-2) shows a summary of calculation of H value, while table (E-3) portrays an ANOV summary and the observed value of "F".

Table (E-2) Scores and ranks of BMNC's motivations & reasons for their decision to invest in Egypt - H. test. (N= 25, K = 5)(1)

Groups of motivation/reasons									
Group I Scores	Ranks	Group II Scores	Ranks	Group III Scores	Rank	Group IV Scores	Rank	Group V Scores	Ranks
48	15	37	18	111	1	41	17	68	12
22	11	29	19.5	78	7	59	13	85	6
89	5	45	15	96	2.5	29	19.5	77	8
75	9	96	2.5	8	22	91	4	3	24
10	21	73	10			3	24		
		49	14						
		3	24						
N_I=5	ER_I = 61	N_{II}=7	ER_{II}=104	N_{III}=4	ER_{III}=32.5	N_{IV}=5	ER_{IV}=77.5	N_V=4	ER_V = 50

N_I = number of reasons in Group I, N_{II}= number of reasons in group 2, etc.....

ER = the sum of ranks for each group.

(1) N = the total number of reasons (in all groups of motivations/reasons.

K = the number of treatment (i.e. groups of reasons examined).

H observed value = 0.833

H critical value = 13.277 at K-1 degrees of freedom i.e. 5-1 = 4 df and at .01 level of significance (X^2 distribution is used because the combination of sample sizes exceeds the largest H given combination of sample sizes).

Table (E-3) An ANOV summary.

Source of Variation	SS*	df	MS+	F**
Between groups (SS bet.)	2388.85	4	597.212	0.496
Within groups (SS within)	24075.15	20	1203.757	
SS Total	26464	24	-	

* The sum of squares.

\+ Mean square.

** Ms between/Ms within.

F critical value = 4.43 at .01 level of significance and 2 and 20 df.

According to both the observed values of "H" and "F" compared with their critical ones and despite the apparently little concerns given by the respondents to some reasons for FDI, it is evident that there are no significant differences of importance between the effects/importance of the reasons under examination with respect to the BMNCs' decision for locating new investment in Egypt. i.e the differences between the reasons for FDI lie in the first place in terms of their primacy.

To sum up, one can choose the following most frequent locational reasons for FDI in the present case (on the basis of the general $\bar{X}$ which was found equal to 56.4)(*):

(*) Calculated as follows: $\overline{X}_{I} + \overline{X}_{II} + \overline{X}_{III} + \overline{X}_{IV} + \overline{X}_{V}/5 = 56.4$

(A) In respect of reasons related to sales and profit potential: Expansion and development of markets, utilize excess capacity, comparative cost advantage and economies of scale, and less competition as well as the large market size existing in Egypt.

(B) Reasons related to cost factors: lower cost conditions, incentives offered by the host government, and advantages of differences in technology and productivity.

(C) Reasons related to host government pressures: the growth of protectionist policies, privileges and incentives, etc. offered and guarantees against non-commercial risks.

(D) Reasons related to risk: the desire to diversify market and excessive competition in the home market.

(E) Reasons related to home government pressures: home government guarantees schemes and economic objectives.

Finally, it may be useful to point out the following additional reasons (comments) reported by the Executive Managers of the BMNCs in connection with their companies' decision for investment in Egypt:

(A) "We simply decided to invest in Egypt not only to carry out our business in a new market, but also we are looking for other opportunities - throughout the Arabic and Middle Eastern countries - via Egypt particularly the latter appears relatively more politically and economically stable compared with other countries in the Middle East, and above all, Egypt has a unique geographic location which may serve our international trade and capital movement".

(B) "Our decision was based on an initiative take to provide Egypt the just certain services".

(C) "We invest in Egypt to enable us to compete in the global market worldwide".

(D) "We invest in Egypt to shorten the supply route to local market and to offer locally made products in local currency".

(E) "We decided to enter the Egyptian market to meet demands by some international companies already working in the U.K.

(F) "To encourage LDCS to manufacture products whenever possible to the mutual benefit of both partners (i.e. Egypt and home country)".

(G) "We decided to invest in Egypt on the basis of an encouragement made by some Egyptian state-owned enterprises working in certain and special industrial fields".

(H) "To ensure a continuity of work during the depression period in U.K.".

(I) "The desire to escape into main contracting overseas".

(J) "Utilizing our international brand, technology and marketing expreience".

1.2 The relevance of various incentives to FDI decisions

It has been argued that while most foreign firms want to benefit from the inducements/incentives offered by the host government, there are types of incentives which may exert less influence on the FDI decision. i.e. the role of incentives granted by the host government appears to differ in order of importance when the decision to invest in a particular country is considered. In this respect, table (E-4) demonstrates the relative importance assigend by the executive managers of the BMNCs to each type of incentive offered by the government of Egypt in relation to their initial decision for investment there.

From table (E-4) it is evident that not all the types of incentives bases the same degree of importance to the BMNCs studied. In other words, it may be established that the BMNCs are concerned primarily with eg. favourable conditions for the repatriation of profits, income and capital, freedom from bureaucratic burdens, freedom from restriction on employment conditions and managerial recruitment and tariffs and customs relief (see column no.3 and 5 for example).

In addition to the above, it may be useful to report the following comments adduced by two respondents: "We need more freedom to trade in foreign currencies and use of repatration of earnings. Also, freedom to set up a company in Egypt within its normal companies' law without the need for investment approval requiring us to demonstrate by

Table (E-4) The relative importance of incentives to the BMNCs' FDI decision

Type of Incentive	Order in which a type of incentive was cited: 1	2	3	4	5	6	7	8	9	(2) No. of Total responses (out of 19)	(3) Possible no. of responses in which a type of incentive was not cited	(4) Weighted Score(*)	(5) Rank
	Number of responses												
Tax exemptions & tax credits on exports from reinvested profits	4	-	2	2	1	4	1	1	-	15	4	88	(5)
Government sponsored credits/loans & capital incentives	-	1	1	2	5	-	1	1	-	11	8	57	(7)
Tariffs and customs reliefs on important exported goods and raw materials	2	3	3	4	1	-	1	-	-	14	5	95	(4)
Equality of treatment with domesticenterprises in terms of e.g. wages' schemes, taxation, etc.	1	-	2	2	1	-	1	1	-	8	11	45	(8)
Non-discrimination against foreign ownership & control	1	4	1	2	2	3	-	-	-	13	6	82	(6)
Freedom from bureaucratic burdens	3	3	5	1	1	1	1	2	-	17	2	108	(2)
Freedom from restriction on employment conditions and managerial recruitment and gathering information,etc.	3	1	2	4	2	2	2	1	-	17	2	99	(3)
Favourable conditions for the repatration of profits and income, and repatration of capital	8	1	-	4	1	1	-	1	-	16	3	115	(1)
Others	-	-	-	-	-	-	-	-	6	6	13	6	(9)
Total Responses and the value of $\bar{X}$	22+	13	16	21+	14	11	7	7	6	117	-	$\bar{X}$ =77	-

(*) As described earlier, taking into account the differences in order in which each type of incentive was cited.

(+) Total sum of responses does not equal 19 because of multiple responses.

feasibility studies, etc. that the business will be viable which is after all a commercial decision"(*). For the BMNCs operating in Egypt, primacy of incentives seems to have been reserved mostly for better conditions concerning repatriation of profits, capital, labour use and managerial recruitment, and freedom from trade restrictions and bureaucracy.

1.3 Factors in marketing and the economic, political and socio-cultural climate influencing FDI decision

In the light of the preceding analysis especially that presented in 1.1 regarding reasons or movitations for FDI, it has been established that expected outputs or profits constitutes by far one of the main reasons for FDI. Also the desire to benefit from differences in cost factors and technological advantages in addition to inducements by the host government, etc. probaly do have an influence on the BMNCs decision to locate FDI in a developing country such as Egypt.

It is nevertheless important to extend understanding of how significant the role is of environmental determinants when the decision to undertake investment in Egypt is considered by the BMNCs. In other words, as a general rule, it may be a mistake to state too strongly that a given firm

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(*) See other comments in the next analysis in 1.3,1.5).

may take a decision to invest in a certain host country within which violent swings from left to right and vice versa take place, or to locate investment in a country with limited market size and resources, inadequate marketing infrastructural facilities, etc.

Taking into account the previous discussion on factors in the host country's overall environment affecting FDI's decision together with the findings derived from 1.1., the following is an examination of H1B which demonstrates how the BMCNs estimated the role of factors in the marketing and the economic, political and socio-cultural climates relative to their decision of FDI in the case of Egypt:

(1) "Factors"in marketing and economic climate: As pointed out in the study methodology, the executive managers of the BMNCs were primarily required to rank in order of importance any marketing/economic factors which have been considered when deciding whether or not to invest in Egypt. Accordingly, table (E-5) which is derived from table no. (2) in appendix (E), presents the number of responses, weighted scores and rank by importance etc of each factor studied.

From table (E-5), the evidence suggests that the respondents by large majority have considered almost all the factors examined in connection with the decision whether to invest or not in Egypt (see the columns no. (1) and no. (2) . Using the value of $\overline{X}$ which is calculated on a weighted scores basis (as a controllable factor) it could be established that the most frequent marketing and economic determinants

Table (E-5) Marketing and economic factors affecting the BMNCs' decision to invest in Egpyt.

Factors considered(*)	No. of firms considering/ using factor (out of 19) (1)	Possible No. of firms by which a factor was not cited/ considered (2)	Weighted Scores (+) (3)	Rank by use/ importance (4)
The type and level of industrial activity in the host country	17	2	96	(2)
Market Size	18	1	119	(1)
The extent of foreign investment which has already taken place	18	1	83	(3)
Labour costs and supply by quantity and quality	17	2	61	(5)
Commercial policies and trade restrictions including fiscal and monetary policies.	16	3	75	(4)
Business system and its structure (e.g. availability of an adequate number of marketing institutions such as outlets, advertising agencies, types of legal forms of organisations, banks, capital and stock market, etc.	15	4	57	(6)
Others	4	15	4	(7)
Total number of responses	105	-	-	-
Total weighted scores			495	
Value of $\overline{X}$			70.71	-

(*) Some of these factors can be seen in some cases as criteria for assessing overseas marketing opportunities.

(+) Weighted scores have been computed as described earlier taking into consideration the differences in order in which each factor was cited by the respondent (see table no. 2 in appendix E).

considered by the BMNCs in terms of their decision for locating investment in Egypt are as follows:

(1) Market size.

(2) The type and level of industrial activity in the host country.

(3) The extent of foreign investment which has already taken place.

(4) Commercial policies and trade restrictions including fiscal and monetary policies.

It is clear, however, that the BMNCs are concerned mainly with the host market size potential (including competition, degrees of development etc.) as well as trading potential within or across the host market's borders. Yet, in the light of the foregoing argument one cannot deny the importance of those factors which have not been chosen above e.g. labour costs, business system and so forth, it is simply that they are not primary concerns of the BMNCs in the present case. Thus, the conclusion in this respect appears to be that, while investment decisions involve all the determinants examined, there are differences in the order of importnace of these determinants relative to particular decision. i.e. For the firms concerned, there are factors which tend to play a substantial role compared with other factors in respect of the decision whether or not to invest in a given host country.

Finally, it is helpful since it is relevant to the present theme, to outline the following factors and comments, made by the British managers surveyed:

1. Government monopoly of certain industries.
2. Market prospectivity (current and potential).
3. Longer term commitment by the host government (credits and aid) for long term expansion.
4. Economic factors and problems influencing BMNCs marketing strategies and the expansion of their investment and business activities in Egypt. Responses to enquiries on these issues by most of the executive managers of the BMNCs indicate several factors and problems. Perhaps the most frequent factors and problems reported to have been encountered by the BMNCs were as follows:

A. It is almost impossible to define the available marekt in Egypt because there is no definite picture of the role of public sector companies in the economy and no information as to whether the government is fully-trully commited to growth in the private sector to the extent that it will increasingly erode the activities of the public sector.

B. There is a distinct lack of projects with remuneration in negotiable currencies (the main projects of this type are funded by aid organizations such as U.S. aid which limit participation to their own nationals thus limiting the number of available projects).

C. Lack of freedom to trade freely in foreign currencies.

D. "Importation legislations which are badly introduced on a bad methods, and other tariff barriers".

E. The unreliability of the new generation of traders who emerged in the 1970s.

F. A general reluctance to move from labour intensive projects utilising many inefficient techniques.

G. Lack of market information in terms of the current and prospective opportunities.

H. "Many of our products are sold to public sector companies. These comapnies are frankly most inefficient in their approach to purchasing, stock control, and regretably the quality of their finished goods."

I. Constraints related to availability of finance.

J. The excessive production - in Egypt - of personnel with paper qualifications has led to a market cluttered with experts. This has led to extreme competition and cost cutting, resulting in a lowering of standards.

K. Slowness of business machinery and lack of other related marketing and production services.

L. In addition to the above-mentioned problems/factors, government subsidy policies, pricing control practices, the absence of preferential treatment with regard to import/export measures for locally established foreign firms and exchange control constitute important problem areas affecting BMNCs overall business and investment activities in some instances (particularly for those firms manufacturing and trading consumer goods).

(2) "Factors" in the political climate: Among the main determinants of location decisions concerning FDI are seen to be political factors including political stability, regulations limiting ownership or transfer of capital and profits, attitudes towards FDI and various other possible disincentives to foreign investment in general. It is probable that one may consider that the provision of guarantees against non-commercial risks for example to a given firm in a given host market will provide a certain degree of security, but on the other hand, it is also arguable that the potential loss due to violence, riots, etc. i.e. political unstability may exceed any possible compensation can be offered to the company concerned. As demonstrated earlier, Xenophobia in government circles/among the public, definite legislative prohibitions on foreign ownership,e tc., may also impede the firms manoevrability in undertaking its global activities and its policies in a particular market.

Without embarking on more detail, the following is the empirical evidnece provided by the field research - related to the political determinants of decisions concerning locating the BMNCs investment in Egypt:

1) Table (E-6) (overleaf) demonstrates the number of responses, weighted scores and rank in order of importance corresponding to each political factor examined (the raw data upon which this table is based appears in table (3) in appendix (E). The main points can, however, be reported as follows:

Table (E-6) Political factors taken into consideration influencing the decision of BMNCs concerning the location of investment in Egypt.

(N = 19)

Factors	No. of firms considering or using factor (out of 19) (1)	Possible no. of firms by which a factor was not cited/ considered (2)	Weighted Scores (*) (3)	Rank (4)
Fractionalization by language, ethnic groups & political factions, etc.	13	6	51	(7)
Attitudes towards foreign investment and the past and present record of such investment.	17	2	107	(2)
Social conditions including extremes in population density, distribution of wealth, etc.	14	5	67	(5)
Violence, strikes and frequency of social conflicts in general.	15	4	75	(4)
Dependence of the host country on a super power (economically, militarily, etc.)	13	6	65	(6)
Restrictions on business, trading, etc. measures and the host govt. degrees of interventions in business affairs and policies and the overall legal system	17	2	118	(1)
Past record of foreign investment expropriation, confiscation, etc.	17	2	95	(3)
Others	1	18	1	(8)
Total number of responses	107	-	-	-
Total weighted scores	-	-	584	-
Value of $\overline{X}$	-	-	73	-

(*) Calculated according to the procedures followed earlier taking into account the order of importance in which each factor was cited by the respondents (see table no. 3 in appendix E).

(A) The evidence from table (E-6) indicates that the political factors under study were considered to have been significant in relation to the decision made by the BMNCs to invest in Egypt (see for example column no. 2 ie. the number of responses omitted)

(B) The evidence also suggests that although almost all the factors in the political climate have been considered - as mentioned in (A) - it is apparent that some factors e.g. fractionalization by language, ethnic groups, economic dependence on a super or hostile power, etc. seem to have a small influence on the BMNC's decision to invest in Egpyt. In other words, as column no. 4 illustrates it could be argued that there are some factors in the political-legal climate which tend to have a more significant impact on FDI s decision while there is doubt about others in terms of their primacy or degree of influence on the decision concerned.

(C) Based on the calculated value of $\overline{X}$, the following factors in the political climate are probably the most frequent/or important determinants of FDI decisions (relevant to the present case):

* Restrictions on business, trading, etc. measures and the host government's degree of intervention in business affairs and policies and the overall legal system.
* Attitudes towards foreign investment and the past and present record of such investment.

* Past record of foreign investment expropriation, confiscation, etc.

(*) Violence, strikes and frequency of social conflicts in general.

(2) In addition to the results reported above, the following comments made by the executive managers of BMNCs during the course of this survey are worth mentioning:

(A) "Political stability is a very important factor for any enterprise wishing to invest in any country".

(B) "Governments who have violent swings from left to right and vice versa shall be avoided".

(C) "Stability of laws, measures and other imports/exports, trading locally is vital for any foreign operations in host countries".

(D) "Exchange restrictions, inabililty to limit dividends and inability to export into other local markets are usually the main reasons for not investing".

(3) <u>"Factors" in socio-cultural climate</u> As stated previously although the role of "factors" in the socio-cultural climate in respect of FDI's decision is understandable, the weight which may be assigned to such factors may vary from one factor to another and perhaps for the same factor at different times because, for instance, of the dynamic nature of factors such as habits, tastes, etc., or becasue the differneces are likely to exist in terms of the types of firms' activities or product nature, etc.

Generally speaking, taking into account the earlier discussion put forward in section (B), together with both the study objectives and the methodology, the main findings of the current field research can be outlined as follows:

(1) According to table (E-7) below it is evidnet that the socio-cultural factors under examination have been given different weights or valuation in respect of their degree of importance relative to the BMNCs' decision to invest in Egypt.

Table (E-7) Socio-cultural factors taken into consideration and/or affecting the decision of BMNCs to invest in Egypt.

N=19

Factor	No. of firms considering factor (out of 19) (1)	Possible no. of firms by which a factor was not considered (2)	Weighted Scores (*) (3)	Rank (4)
Language homogeneity	15	4	69	(4)
Religious homogeneity	13	6	44	(6)
Social values,habits,traditions,etc.	15	4	70	(3)
Literacy level	15	4	63	(5)
Urbanization and transportation, communication, energy systems,etc.	17	2	101	(1)
Managerial styles prevailing and the role and status of business executives	17	2	90	(2)
Others	2	17	2	(7)
Total number of responses	94	-	-	
Total weighted scores	-	-	439	-
Values of $\overline{X}$	-	-	62.7	-

(*) Computed according to the same procedures followed earlier taking into account the differences in order in which each factor was cited (see table no. 4 in appendix E).

(2) Among the socio-cultural factors studied, it is apparent that factors such as (a) urbanization, transportation and communication and energy system, (b) managerial styles prevailing and the role and status of business executives, and (c) social values, habits, etc. are primary concerns of the BMNCs operating in Egypt.

(3) Finally, it is probably interesting to outline the following additional factors which have been reported by the respondents:

(A) "Anti-western attitudes towards foreign investment in an enormous issue for not investing in foreign markets (not peculiar to Egypt particularly)".

(B) "Availability of schooling and universities for accompanying families is very important".

(C) "Absence of local professional managers is one of the most important problems which may plague our business success in Egypt".

(D) The following summarised commwent is made also by an Executive manager surveyed: "Despite my earlier comments I do believe that one cannot resist the temptation of doing business in Egypt". Yet it would be unwise for any investor to ignore the Egyptian bureaucracy".

1.4 The relative importance of factors in the economic, political and cultural climate: An overall comparison

It has been established according to the previous analysis that the role of "factors" in the marketing, economic, political and socio-cultural climate in FDI's decision varies from one factor to another. At the same time, under different valuations all of the factors examined appear to have been involved when the decision taken by the BMNC's to invest in Egypt is considered.

Taking into account the proposal put forward in H1B together with the preceding findings, an overall comparison between the relative importance of the economic, political-legal and socio-cultural factors in relation to the decision of FDI can be presented as follows:

1) Table (E-8) below shows the number of responses, weighted scored and rank by order of importance corresponding to each group of factors in Egypt's economic, political-legal and socio-cultural climates(*).

Table (E-8) Economic, political and socio-cultural factors affecting the BMNCs decision to invest in Egypt: an overall comparison

N=19

Group of Factors	Order in which each group was cited (1)	(2)	(3)	Number of respones in which a group was cited (out of 19)	Poss. No.of Resons-es in which a group was not cited	Weighted score (*)	Rank+
	Number of responses						
Economic Factors	15	3	1	19	-	52	(1)
Political-legal factors	4	14	1	19	-	41	(2)
Cultural Factors	1	1	17	19	-	22	(3)
Total Responses	20	18	19	57	-	-	-

(*) Maximum score multiplied by no. of responses is equal to 3 in terms of the order no. (1).
(+) Based on the weighted score assigned to each group of factors.

(*) In this connection it is useful to report that the respondents were required to rank in order of importance the three groups of factors regarded in general as relevant to their firms' decision to invest in Egypt.

From this table, the evidence suggests that the economic factors appear to be a major concern of the BMNCs relative to their investment decision. Thus, the present result arguably does not support too strongly the study hypothesis formulated earlier.

2) A comparison between the result derived from table (E-8) and those in tables (E-5), (E-6) and (E-7) as illustrated in table (E-9) (shown below) shows a relatively different result from that obtained earlier.

Table (E-9) Ranks, weighted scores, $\overline{X}$ and r_s of factors affectings FDI decision.

Environmental determinants	First Treatment (1) Value of $\overline{X}$	Rank$_{(A)}$	Second Treatment (2) Weighted Scores	Rank$_{(B)}$	r_s between A & B (3)
Economic factors	70.71	(2)	52	(1)	
Political-level factors	73	(1)	41	(2)	0.50 (4)
Cultural Factors	62.7	(3)	22	(3)	

(1) Based on tables (E-5), (E-6) and (E-7).

(2) Based on table (E-8).

(3) r_s = Spearman's Rho.

(4) Because the sample size is too small in this case (i.e. less than 4 elements), one cannot determine how significant is the observed value of r_s.

Based on table (E-9), it is apparent that according to the first treatment of factors under examination, the political-legal factors held the first rank in order of importance followed by the economic and then the socio-cultural factors. This result,however, confirms the study assumption put forward. But when these factors have been examined on a broad base (ie. second treatment), the economic factors have been considered first in order of importance. Despite the apparently positive relationship between $rank_A$ and $rank_B$ as based on the value of r_s it is not possible to conclude with certainty that the political-legal factors are rather less important than the economic factors. At the same time, it is clear that the socio-cultural factors in both cases (first and second treatments) held the third rank in order of importance.

3) In view of the study hypotheses which suggests that the political factors are likely to be a primary concern of the BMNC in a developing country like Egypt, it would be necessary taking into account no. (2) above relying on the first treatment, i.e. earlier analysis presented in table (E-6) compared with (E-5) and (E-7) which deals with the factors understduy in more detail. According to this suggestion, it may be made clear that the political factors in gneral can be considered as first in order of importance followed by the economic and the socio-cultural factors respectively.

4) According to ANOV analysis shown in table (E-10) which is based on tables (E-5), (E-6) and (E-7), it was found that no significant differences exist between the means of the factors under study at the .05 level of significance.

Table (E-10) An ANOV summary of the determinants of FDI

Source of Variation	SS	df	MS	F
Between groups	425.14	2	212.57	0.18(*)
Withiin groups	21874.86	19	1151.308	
Total	22300	21	-	

(*) The critical value of F = 3.52 at .05 level of significance and 2 and 19 degrees of freedom.

Comparing the observed value of "F" compared with its critical value, the evidence, however, suggests that while some factors in the marketing, economic, political and cultural climate appear more important or more frequently related to the FDI's decision than others, for instance market size, restrictions on business and attitudes towards FDI, urbanisation and transportation systems etc.,this pertains most to the order of improtance or the primacy of each factor rather than to how important each factor is (Within each group and between the three groups of factors in connection with the FDI's decision. i.e. the types of determinants of FDI have been considered which are relevant to the FDI's decision taken by the BMNCs to invest in Egypt, but there were some doubts or differences of judgement in respect of the primacy of the determinants under examination.

Finally, a warning must be given here that the above findings as a whole are peculiar to the case of a small sample of the BMNCs operating in a particular country (Egypt). This may make it difficult to produce any generalization of the results obtained.

1.5 Problems encountered in implementing the BMNC's marketing policies, investment expansion and related activities in Egypt.

As related to the previous analysis, it has been considered appropriate to explore the most common problems which have been experienced by the executive managers of the BMNCs in Egypt (see hypothesis no.3). In this connection, the respondents were asked to indicate the greatest problem they have encountered in respect of the implementation of their companies' marketing policies, investment expansion and related activities. In response to this question, the salient problems which were found to have more significnat influence for a larger number of the BMNCs studied can be summarised as follows:

First: In respect of implementation of marketing policies(*)

1) Lack of business understanding by government officials.

(*) See also the previously reported comments and results relevant to this point.

2) Lack of skilled manpower at all levels and particularly in marketing and related activities.

3) Lack of customer education and public awareness concerning what is available in the market.

4) Inadequate and poor standard of communication facilities to reach several profitable markets in Egypt.

5) The red tape which makes it difficult to obtain reliable statistics and data required. It also makes delays when dealing with the public sector companies.

Second: <u>In terms of investment and business expansion:</u>

1) Ambiguities exist with regard to many aspects of the investment policies.

2) The lack of co-ordination between government's departments concerned result in lengthly negotiations and increased costs.

3) Excessive customs procedures in respect of imports and exports. These procedures/measures are too slow and very complicated for marketing purposes.

4) The uncertainty and instability of economic legislation and measures, coincident with the delays between planning and actual execution by the ministries involved. These problems arise not only because of the bureaucracy which operates in complying with government regulations and laws affecting the day-to-day running of a business, but also because of inter-departmental differences and lack of control over the inefficiency of almostall government employees.

5) Limitations imposed on the use of non-Egyptian labour together with the difficulties caused by frequent changes in training procedures.

6) Shortage of foreign exchange and change in foreign exchange rates with regard to the Egyptian pound against other curriencies.

7) Problems related to the selection of suitable potential partners (our local partner for example does not have the same commercial objectives, financial and managerial capabilities/quality making it difficult to work together.

8) An infant experience with foreign investment - ten or so years - with narrow accesses available for penetrating the Egyptian market, making it difficult for any foreign investor to invest a large amount of capital. It is precisely enhance the risk (rarely is it able to establish a wholly-owned subsidiary for example).

9) Lack of financial support and credits provided by the Egyptian government.

10) Delays due to bureaucracy, centralization of the decision-making process at the top of government level and very out-of-date management practices in GAFI and other industrial circles. All of these types of issues cause delays from the conceptual phase of the investment projects to both the implementation and the operation stages. There is a considerable lack of communication and co-ordination between the Investment Authority and

the other economic sectors concerned with foreign investment.

11) Egypt suffers enormously from the absence of research and information centres needed to serve investment purposes in general.

12) Policy reversal is possible and lack of freedom still exists. In this respect it is probably useful to quote the following two comments:-

(a) One respondent (who provided a negative reply because the questionnaire was not appropriate to his case) reported that:

"We were invited by the government to look at the possibility of a joint venture with their government owned .... company a couple of years ago and indeed a letter of protocol was signed between ourselves and the Egpytian government. However, unfortunately due to President Sadat's assassination the new government had a change of mind and the agreement was cancelled".

(b) Another respondent also reported".....there would be much more investment in Egypt if the "door" was opened a little more growing freedom to companies to set up ventures with less government control".

"I am certain that the slow procedures out investment approval system in Egypt turns off more viable investors than any other cause."

1.6 Factors affecting tbe selection of investment forms/ routes (*)

As already stated, a firm's decision to undertake FDI in a host country always occurs after a number of determinations are carefully made in respect of e.g. the size of investment, timing of investment and so forth. Among the most important (or inseparable) decisions associated with FDI is probably that the firms concerned must choose carefully the form of such investment. i.e. if FDI is chosen, the form of investment e.g. wholly-owned, joint venture, etc. should also be chosen. The selection of investment form and/or the method to enter into a particular country as an interdpendent decision which is incorporated with the FDI's decision is also probably contingent upon a number of factors. Some of these factors - as assumed earlier - are probably associated with for instance the firms specific while others relate to those of the host country, etc. In this respect, the following is an analysis of the field research findings on considerations and factors influencing the BMNCs' choice of investment forms or routes for entering into the Egyptian market:

1) Table (E-11) shows a number of responses, weighted scores, order of importance in which each factor considered by the respondents was cited etc. From this table it is apparent in general that factors relatively independent of the company and its industry (as based on $\overline{X}$) have been considered first in order

(*) Several alternative forms of FDI and/or routes of entry into a given foreign market have been given (See questionnaire no.1 in appendix D).

Table (E-11) Factors considered in selecting the forms and/or methods of the BMNCs investment in Egypt (1)

N=19

Factor	(1) Total no. of BMNCs (out of 19) considering factor	(2) Possible no. of responses in which a factor was not cited	(3) Weighted Score (*)	(4) Rank by importance
I. Factors peculiar to the company:				
The size of the company	15	4	56	(7)
The company's product line & its nature	13	6	63	(6)
The volumes of foreign business desired	14	5	80	(4)
The competition in the overseas market	16	3	73	(5)
The company's previous experience of o/seas investment	18	1	102	(2)
The company's financial, technical, personnel capabilities,etc.	16	3	105	(1)
The company's comparative advantages over local firms or other foreign subsidiaries in the overseas market	17	2	95	(3)
Others	3	16	3	(8)
Total number of responses and the value of $\overline{X}$	112	-	72.12	-
II. Factors relatively independnet of the co. & its industry:				
The number of foreign markets in which the co. has representation	18	1	120	(3)
Investment requirements (funds, personnel, etc.)	18	1	122	(2)
Marketing costs and profit potential perceived to exist in the market	18	1	135	(1)
Others	5	14	5	(4)
Total number of responses and the value of $\overline{X}$	59	-	95.5	-
III. The advantages of each method of entry:				
Flexibility to enable the company to cope with the changes in the market environment	17	2	127	(1)
Information, feedback and control over the operations	16	3	110	(3)
Exposure to foreign market problems (e.g. legislation and imposed curbs, etc.)	17	2	118	(2)
Others	4	15	4	(4)
Total number of responses and the value of $\overline{X}$	54	-	89.75	-
Grand total of responses (I + II + III)	225	-	-	-
General value of $\overline{X}$	-	-	85.79	-

(1) See table no. 5 in appendix (E).

(*) Computed as already described taking into consideration the order of importance in which each factor was cited.

of importance, followed by factors related to the advantages of each method or form of investment, and in the third place were those factors peculiar to the company (ie. firm-specifics). A key part of the overall findings shown in table (E-11) is also the number of omissions of responses (ie. column no.2). If one looks at the number of possible responses in which a factor was not cited by the respondent it should be made clear that almost all factors - within each group - are seen as having an influence on the choice of the form of FDI taken by the BMNCs when the decision whether to enter into the Egyptian market is taken. In other words, the decision taken by the BMNCs to select a certain form or route for entering into the Egyptian market is apparently based on the factors studied. It is nevertheless useful to note that (based on column no.4 and the value of X of each group of factors examined) not all the factors appears to have the same degree of importance in the choice of FDI's form. ie. the evidence here suggests that although all factors examiend may have an influence on the selection of FDI's forms, the degree of such infleunce seems to differ somewhat form one factor to another. For instance, company's financial, technical, personnel capabilities, marketing costs and profit, investment requirements, flexibility of the FDI's form, etc. are factors which appear to have a greater effect on the choice of the investment forms rather than others (e.g. the size of the company or its product line and nature).

2) To determine whether there is significant difference of importance between the factors examined relative to the choice of FDI forms, two statistical techniques, an ANOV for unequal sample sizes and an H test has to be calculated as shown in tables (E-12) and (E-13)(*). According to the observed value of both "F" and "H" compared with their critical ones, it is evidnet that no significant difference was found between the factors studied with respect to the BMNCs' choice of their investment forms and/or routes to enter into the Egyptian market (ie. the differences lie mainly in the primacy of the factors examined).

Table (E-12) An ANOV summary: Unequal sample sizes.

Source of Variation	SS	df	MS	F
SS between groups	1747.12	2	873.56	0.40
SS within groups	28682.63	13	2206.35	
SS Total	30429.75	15		

F Critical value = 6.70 at .01 level of significance and 2 and 13 degrees of freedom. F critical value at .05 level of significance is equal to 3.80.

(*) Based on column no. (3) in table (E-11).

Table (E-13) H - Test.

(K= 3)

Group I		Group II		Group III	
Score	Rank	Score	Rank	Score	Rank
56	13	120	4	127	2
63	12	122	3	110	6
80	10	135	1	118	5
73	11	5	14	4	15
102	8				
105	7				
95	9				
3	16				
N = 8	ER=86	N=4	ER=22	N=4	ER=28

H observed value = 3.626

H critical value = 9.210 at .01 level of significance and 2 degrees fo freedom (in distribution of X^2), at .05 level of significance H = 5.991.

(3) In very broad terms, the executive mangers of the BMNCs were required to: (a) rank in order of importance some factors (which have been examined earlier) relative to the choice of the alternative entry strategies (i.e. forms of FDI), and (b) indicate any particular reason (or benefit) behind the selection of a particular investment form/route instead of others. Accordingly,

table (E-14) illustrates the findings realised in respect of (a). More specifically the evidence in this table (as shwon in column no. 4 and on the basis of $\overline{X}$) suggests that the relative importance of the factors studied pertain to those factors associated with the host country's overall environment (political, economic and socio-cultural), the profitability of the overseas market and investment requirement. Country-specifics or environment in general tends to play a substantial role not only in terms of the decision whether to invest in a given coutnry but also the selection of the investment form.

Finally it is interesting to point out the following comments regarding the reasons which lie behind the selection made by four firms surveyed (out of 19) of their forms and/ or routes of entry into Egypt:

A) One respondent whose company established a wholly-owned subsidiary has reported that "our parent company always believes that its companies should be close to the market place, and whenever possible, it is our group's practice to establish a production base after initial sales have been achieved"(+)

(+) A firm operating in the extractive industry (oil exploration and oil products).

Table (E-14) Broad factors affecting the BMNC's choice of investment form and/or routes of entry into Egypt's market (*)

(N=19)

Factor	Total No. of responses (out of 19) (1)	Possible No. of Responses in which a factor was not cited (2)	Weighted Score** (3)	Rank (4)
Host country's political, economic and cultural environment	19	-	116	(1)
Home country's pressures, local market competition at home, etc.	15	4	64	(6)
The number of overseas market that are covered by the company and the company's degrees of penetration in each market	18	1	71	(5)
The previous experience of the company with overseas markets	19	-	80	(4)
The profitability of a given overseas market	19	-	94	(2)
The importance of controlling the operations overseas	17	2	61	(7)
Investment reuqirement and the company's capabilities (financial, personnel, technical, etc).	19	-	81	(3)
Total responses and the value of $\bar{X}$	126	-	$\bar{X}$ = 81	-

(*) Based on table no. (6) which appears in Appendix (E).

(**) Calculated as demonstrated before taking into consideration the order in which each Factor was cited.

B) Another respondent (whose company entered into the Egyptian market through exporting via an agency agreement that led to 50/50 joint venture with a local partner) reported that "we thought at the very beginning that local market know-how is very important. Exporting via an Egyptian agent (...) provides valuable assessment of the potential investment in Egypt,and a gradual build-up of a manufacturing base in that country. At present, we are thinking to further our company's position in the Arab market".

C) The third comment, reported by a consulting engineering company was as follows: "Consulting Organisation (such as.....) does not necessarily set up a permanent base in a new territory".

D) A fourth comment was made by a company which established directly a 60/40 investment ventures: .. "Once again, rarely is it possible to establish a wholly-owned subsidiary and thus in Egypt we have a 60/40 relationship with our partners. We prefer to become a company with Egyptian investment competing on equal terms with indigenus firms".

Based on the above comment and taking into consideration the previous analysis, together with the study limitation referred to, it is possible to argue that the nature of a company's activity seems to have some influence on the form of investment which can be chosen by the firm concerned. Also, there are companies which prefer not to plunge directly because the lack of local market know-how for example or most improtnatly because of the conditions of Egypt's policy towards FDI which permits narrow accesses or a limited number of forms of investment for incoming foreign investors.

1.7 The relevance of the Egyptian environment to FDI

It has been considered important - in view of the current stduy objectives - to explore how relevant the Egyptian environment is to FDI and related activities. In this connection it has been assumed that - the Egyptian elites are generally confident that the Egpytian climate is able to serve effectively FDI and foreign firms' activities (hypothesis no.3). Taking into account the preceding findings particularly those comments made and obstacles reported by the BMNCs surveyed together with the analysis of the Egyptian economy etc., in section (C) the following is an examination of the hypothesis put forward in this resepct (which is based primarily on the opinion of the egyptian academic staff and the senior decision-makers of GAFI and GOFI):

1) As demonstrated in table (E-15), on following page the overwhelming majority of the Egyptian academic staff believe that the Egyptian economic climate (as measured by e.g. market size, geographic location, natural resources, etc.) is able to serve satisfactorily FDI and foreign firms' activities.

Table (E-15) The relevance of Egypt's economic climate to FDI: Academic staff point of view

N = 49

	Yes	No	Not Sure	Total
Number of responses	44	2	2	48(*)
%(+)	90	4	4	98

* Number of respondents who provided answers to the questions concerned.

\+ Calculated on the basis of N = 49.

2) In response to the question whether or not the political climate of Egypt conforms to the requirements of FDI the Egyptian academic staff by and large agree that Egypt's political climate (as measured by e.g. the possibility of internal unrest, political factions, violence, foreign boycott and so forth) is generally stable compared with many of the Third World Countries. This agreement is evident in table (E-16) below.

Table (E-16) The relevance of Egypt's political climate to FDI: Academic staff viewpoint.

N = 49

	Yes	No	Not sure	Total
No. of responses	43	-	5	48
%(*)	88	-	10	98

(*) See the comment made earlier in table (E-15).

3) In respect of the cultural climate of Egypt, it is also evident as illustrated in table (E-17) below that the respondents surveyed agree that the Egyptian climate (as measured by for instance, level of literacy, number of educated people, mass media availability, etc.) is to respond and to serve effectively the foreign firms activities in Egypt.

Table (E-17) The relevance of Egypt's cultural climate: Academic staff point of view.

N = 49

	Yes	No	Not sure	Total
No. of responses	41	-	8	49
%	84	-	16	100

4) In response to the question whether or not there are any political considerations behind the restrictions imposed on the establishment of inland wholly-owned foreign subsidiaries, the senior decision-makers of GAFI and GOFI by a large majority (88%) have reported that no specific political considerations exist.(*) Additionally, a deputy chairman of GAFI reported that "generally there are no political considerations regarding the establishment of a fully-owned foreign project. But the exemption from local partnership condition requires the approval of two-thirds of the Board of Directors of GAFI according to the provision

(*) Undoubtedly such enquiry seems to be a naive one, but it has somewhat significant importance in the Egyptian context. It also throws light on the attitudes towards foreign investment in very general terms.

of law no.43 of 1974". "The exemption from this condition is always dependent upon the nature of the investment project". Another respondent has also reported that: "wholly owned foreign projects should be allowed on a significant base".

5) As far as the foreign firms are concerned(as one will find out in the next chapter) not only are the attitudes of the academic staff towards FDI generally positive but this view is also shared by the executive managers of the state-owend enterprises in Egypt. In other words, no hostile attitudes towards FDI were found to any significant degree either on the part of the leading officials of GAFI or on the back of both the Egyptian academic staff and the executive managers of the public companies.

Possibly, one can argue about the methodology adopted in seeking the attitudes examined above, and in consequence question the findings obtained, but it must be noted that the objective of the present study in this field is to explore the broad overall perceptions or judgements of a sample of the Egyptian elites about their country's climate in the context of FDI. The realised results, however, must be considered together with-as previously noted-the earlier investigation of the overall environment (including policies, practices, etc. towards FDI), in addition to the BMNCs experience with Egypt's environment which has been highlighted before.

1.8 Concluding Remarks

It is perhaps interesting to point out briefly some comments made by two executive managers of the BMNCs studied.

(1) "Egypt with its vast population and growth together with its open door policy offers a long term potential market". Although "too early to comment further, certainly there would be much more investment in Egypt if the door was opened a little more". "Consistent, not changing policies, measures and procedures are very important in any long term enterprise". (2) "We are needed, we are encouraged, but rarely are we helped to achieve what Egypt wants. We love it, but it is enigmatic to expatriates".

Although it is not possible to draw a general conclusion concerning the previously analysed findings due to the limitsations outlined earlier, it may be useful to point out the following major points:

(1) For most firms studied, reasons and/or motivations for FDI are numerous. While almost all reasons for FDI examined have been considered under different evaluation it has been established that reasons related to sales and profit potential and cost factors are of primary concern to the firms surveyed.

2) Among the most important types of incentive are those related to the conditions regarding repatration of capital, profits, etc. freedom from labour conditions and trade measures.

3) Among the most important locational factors affecting

FDI decisions are market size, level and type of industrial activities in the host country, restirctions on business, attitudes towards FDI and urbanization levels including infrastructural facilities in general.

4) Particular attention has been paid by the firms studied to factors in the political-legal climate in general when an investment decision in a developing country like Egypt is considered.

5) The executive managers of the BMNCs surveyed by and larged believe that there are problems such as bureaucracy, inadequate infrastructure, instability of laws and measures imposed on e.g. the use of non-Egyptian labour, and limited forms of FDI admitted by the government are influencing the implementation of marketing policies and investment expansion in Egypt(*).

6) There are factors relatively independent of the firms and their industry's features tend to play substantial role in relation to the selection of the forms and/or routes of entry in a given market, followed in order of importance by factors peculiar to the advantages of the methods or forms of FDI and then firms-specific (particulary those associated with technical, financial, and personnel advantages).

7) Despite the issues in marketing and economic, etc.

(*)In this connection it is probably useful also for further information/data etc to go back to the earlier analysis of the Egyptian economy in section (C).

environment, Egypt with its large market, natural resources, geographic location, hospitable political and cultural climate compared with many Third World countries could provide a promising market potential for any foreign companies concerned(*).

(*) In this connection it is probably useful for further information/data etc. to go back to the earlier analysis of the Egyptian economy in Section (C).

CHAPTER (2)

IMPACT OF FDI

Introduction

As presented earlier, the role of FDI in developing countries' economies has long been a subject of controversy. The arguments for and against FDI are endless and without limit. The conventional and/or neo conventional writers, for example, attribute salient economic and social benefits to FDI (when channelled by MNCs). It brings in, for example, missing or deficient factors of production such as capital technology, managerial skills and so forth. On the other hand, the cirtical views have pointed out numerous unfavourable consequences of FDI on the economies of developing countries. FDI - as channelled through MNCS - often increase the propensity for conflicts in interest between the host country and the MNCs, it creates technological dependence, high import dependence, misallocation of resources, adverse effects on balance of payments, displacement of indigenous production, etc. The economic and political capabilities of a given host country will probably be decreased as a result of such adverse consequences of FDI..

Nevertheless, it has also been argued that it seems that mutual interest exists between the host countries and the MNCs. Even with the possibility of divergences of interest or the possible wide gap in expectations between both partners of investment venture (i.e. MNCs and the host states), it is hard to ignore either the importance of infusions of foreign capital, know-how, etc. for a developing host state, or the continuing desire of MNCs to undertake new investment - or expand it - in developing countries in order to benefit from e.g. comparative advantages or cost factors and so forth.

In short, bearing in mind, the previously discussed arguments and counter arguments and the costs and benefits of FDI in developing countries, a look at the growth trend of FDI's flows in developing countries may make it possible to argue that both partners of investment ventures will probably have to continue to rely on each other for substantial mutual benefits, i.e. on the one hand, the developing host countries will have to rely on FDI as an instrument for financial and technological benefits, etc. and the MNCs on the other hand, will also be increasingly paying particular attention to the developing countries as potential markets (for locating or undertaking new investment there). As far as the host countries are concerned, the extent to which the FDI can influence their economies seems to remain an arbitrary question. As demonatrated earlier the impact of FDI in these countries is arguably dependent on numerous factors in the economic and socio-political climate, etc. including the policies, basic orientations and practices, etc. towards FDI.

Leaving aside the contingency of the impact of FDI, the present chapter is concerned with analysing the field research findings regarding the influence of FDI in the case of Egypt (hypothesis no. 4). This analysis can be presented under the following heading as based on the study methodology:

2.1 Attitudes towards the effects of FDI in Egypt

Knowing the attitudes towards the effects of FDI would be an initial pre-requisite for measuring and probing the importance of such investment in a certain developing country such as Egypt. In this connection, and apart from the generally held opinions towards FDI, it has been assumed that the overall affects of this type of investment in Egypt are positive. i.e. the attitudes towards FDI is generally positive. Thus the following are the main findings resulting from an examination of the present assumptions:

1. The overwhelming majority of the Egyptian academic staff agree that the overall affects of FDI on Egypt's economic and social development is positive. This agreement is evident in table (E-18) on the following page, which demonstrates that about 67% of the respondents interviewed considered the effects of FDI as generally positive and 6% viewed it as very positive. It is also evident in the light of the observed value of Chi-Square (X^2) that despite the apparently significant difference exists, the attitudes of the respondents surveyed towards the overall effect of FDI has been generally seen as positive.(*)

(*) The observed value of X^2 is probably overestimated because of the responses which are divided into two categories (see next page).

Table (E-18) Attitudes towards the effects of FDI in Egypt: Academic Staff point of view

(N=49)

Very Positive		Positive		Don't Know		Negative		Very Neg		Total	
No. of Responses	%	No. of Responses	%	No. of Responses	%	No.of Responses	%	No.of Responses	%	No.of Responses	%
3	6.3	33	67.4	5	10.0	8	16.3	0	0	49	100

X^2 observed value = 10.794, X^2 critical value at .01 level of significance and 1 degree of freedom is equal to 6.636(*).

2. According to the following table (E-19) which shows the number and percentages of responses of the executive managers of the state-owned enterprises, it is clear that the view of the academic staff towards the effects of FDI is also shared by a large number of the managers of the indigenous firms studied. i.e. the effect of FDI on Egypt's development has been regarded as generally positive by the Executive managers of the public companies.

* For the purpose of statistical inference/convenience, the above responses were collapsed into two groups (favourable attitudes i.e. very positive and positive, and unfavourable attitudes i.e. don't know, negative and very negative).

Table (E-19) Attitudes towards the effects of FDI in Egypt: The viewpoints of the executive managers of the state-owned enterprises(+).

(N=30)

Very Positive		Positive		Dont Know		Negative		V. Negative	
No. of responses	%	No. of Responses	%	No. of Responses	%	No. of Responses	%	No.of Responses	%
3	10	20	67	2	6	5	17	-	-

3) A comparison between both the attitudes of the academic staff and those of the executive managers towards the effects of FDI - using a X^2 test as portrayed in table (E-20) below shows that no significant differences exist in respect of the overall effects of FDI. In other words, it was found that a consensus agreement exists between both the academic staff and the executive managers; both groups agree that the effects of FDI on Egypt's economic and social development are generally positive.

(+) A breakdown by number of firms, types of economic activities, number of responses received etc. appears as table (7) in appendix (E).

Table (E-20) Academic staff attitudes vs. Executive manager's attitudes: X^2 - test (*)

Type of responses / Respondents	Observed frequencies: Favourable	Unfavourable		Expected frequencies: Favourable	Unfavourable	
Executive Managers	23	7	30	22.40	7.59	30
Academic Staff	36	13	49	36.59	12.40	49
	59	20	79	58.99	19.99	79

Observed value of X^2 = 0.01

Critical value of X^2 = 6.636 at .01 level of significance and I degree of freedom.

4) Based on the previous analysis of FDI in Chapter (3), section (C), especially the part related to the recent efforts to encourage FDI together with the preceding outlined view of the leading officials of GAFI and GOFI in the foregoing chapter, it is also apparent that attitudes towards FDI in Egypt are encouraging(+). i.e. Egypt will probably continue to encourage FDI or rely on such investment as a method for providing substantial benefits to the Egyptian economy.

(*) The responses have been collapsed into two types favourable and unfavourable for the purpose of statistical inference.

(+) See for example the new measures to stimulate foreign investment, which were introduced in 1983.

5) In response to the question whether or not the government should allow foreign firms to enter into the heavy and strategic industries as well as to permit 100% ownership of a foreign subsidiary the responses received from the Egyptian academic staff were encouraging; about 63% of the total·number of the respondents interviewed agreed about the proposition that the government should allow foreign investors to enter into the heavy and strategic industries, while 49% agreed about permitting foreign ownership in the investment project on 100% basis(*). A result of this kind may also provide evidence to confirm the previous analysis put forward concerning the attitudes of the academic staff towards FDI.

2.2 The relative importance of FDI 's contributions to the development of Egypt

In this regard, it has been generally assumed that Egypt will probably have to continue to rely on substantial capital inflows, technology and other resources transfer and social benefits in which FDI will arguably play an important role. Moreover, it has also been expected that the academic staff - Egyptian elites - will put more emphasis on the technological inputs of FDI in general taking into account

(*) The opinion here has been examined on a 5-points-scale. i.e. the degree of agreement includes strongly agree and agree, while uncertain, disagree and strongly disagree have been considered in this respect on disagreement (see next Chapter).

the proposition that it is possible one will find that significant differences exist in opinions regarding the degree of importance of all types of benefits of FDI to Egypt's development.

Even from the side of the BMNCs under study, the generally held opinion of the executive managers of these firms is probably that Egypt has acquired several types of benefits as a result of their presence there. In short, the findings of examining the hypotheses put forward in this connection can be demonstrated as follows:

First: Table (E-21) portrays how the Egyptian academic staff evaluated some of the anticipated benefits of FDI to Egypt's development. From this table, it is clear that the academic staff by and large considered most of the benefits examined as important to the development of Egypt (especially those related to the economic and technological contributions of FDI). Using the value of $\overline{X}$ which appears in table (E-21) as an arbitrary factor together with the rank assigned to each type of benefit it is perhaps useful to choose the following most frequent types of benefits:(*)

(1) In respect of resource transfer effects: (a) the provision of foreign capital (foreign capital inflow)

(*) This classification has been undertaken in the light of an earlier listing of the effects of FDI in developing countries (Section B Chapter (2). The categorization that appears in the table was for the field survey purposes only.

Table (E-21) Academic staff's view of the importance of benefits of FDI to Egypt.

(N=49)

Types of Benefits	Order of importance in which each type of benefit was cited								Weighted Scores(*)	Rank
	Very Important		Fairly Import.		Of Some Import.		Of No Import.			
	No.	%	No.	%	No.	%	No.	%		
I. Economic benefits:										
Foreign capital inflow	29	59.2	11	22.4	9	18.4	-	0	167	(2)
The creation of new job opportunities and utilization of local skills training,etc.	31	63.3	10	20.4	7	14.3	1	2.0	169	(1)
The stimulation of competition with local firms	17	34.7	13	26.5	14	28.6	5	10.2	140	(7)
Import substitution and export earnings	16	32.7	23	47	9	18.3	1	2.0	152	(6)
The creation of new foreign markets and commercial links	13	26.6	16	32.7	17	34.7	3	6.0	137	(8)
The provision of new products and services to respond to the needs of local consumers	21	42.9	13	26.5	15	30.6	-	0	153	(5)
The development of local resources, depressed areas and encouragement of local entrepreneurs.	25	51	12	24.5	10	20.4	2	4.08	158	(4)
The expansion of the Egyptian industrial base.	26	53	15	30.6	5	10.2	3	6.0	162	(3)
Value of X̄	-	-	-	-	-	-	-	-	154.7	-
II. Technological benefits										
Replacing outdated,small-scale industries with up-to-date advanced large scale industries	20	40.8	15	30.6	12	24.5	2	4.0	151	(5)
Training indigenous manpower	25	51	15	30.6	8	16.3	1	2.0	162	(1)
Transferring new managerial skills and know-how,etc.	24	50.0	13	26.5	11	22.4	1	2.0	158	(3)
The contribution to local R&D efforts.	28	57	9	18.4	9	18.4	3	6.0	160	(2)
Providing new patents, technical know-how,etc.	24	50.0	15	30.6	6	12.2	4	8.2	157	(4)
Value of X̄	-	-	-	-	-	-	-	-	157.5	-
III. Cultural & Socio-political benefits:										
The provision of political, financial and military aid by the foreign firms' national government	5	10.2	9	18.4	20	40.8	15	30.6	102	(3)
Foreign investment providing visible and tangible symbols of growth and progress	9	18.4	12	24.5	24	50.0	4	8.2	124	(1)
The development of new tastes, habits, new ways of life,etc.	8	16.0	10	20.0	24	50.0	7	14.0	117	(2)
Value of X̄	-	-	-	-	-	-	-	-	114.3	-

(*) Weighted scores have been calculated in this case as follows: each time a type of benefit was cited by the respondent as "very important" it was multiplied by 4, as "fairly important", it was multiplied by 3..... and as "of no importnace by 1.

(b) Technology transfer: training indigenous manpower, the contributions to local R & D efforts, transferring new patent and technical know-how.

(c) Transferring new managerial skills and know-how.

(d) The provision of new products, services, new tasts, ways of life, etc. to respond to local needs.

(2) In terms of employment: the creation of new job opportunities, utilization of local skills and training,et c.

(3) Other benefits such as: (a) the development of local resources, depressed areas, encouragement of local entrepreneurs, (b) the expansion of Egypt's industrial base, and (c) FDI's provision of visible and tangible symbols of growth and progress.

To explore how significant are the differences of importance between the types of benefits examined, two statistical techniques have been applied (ANOV and H-test) as shown in tables (E-22) and (E-23) below.

Table (E-22) An ANOV summary.

Source of Variation	SS	df	MS	$F^{(*)}$
Between groups	4225.54	2	2112.77	8.81
Within groups	3117.4	13	239.8	
Total	7342.94	15		

* Critical value is equal to 6.70 at .01 level of significance with 2 and 13 degrees of freedom.

Table (E-23) Scores and ranks of the benefits of FDI:H-test

Economic Benefits		Technological Benefits		Cultural and socio-political benefits	
Scores	Ranks	Scores	Rank	Scores	Rank
167	2	151	11	102	16
169	1	162	3.5	124	14
140	12	158	6.5	117	15
152	10	160	5		
137	13	157	8		
153	9				
158	6.5				
162	3.5				
N= 8	ER_1=57	N=5	ER_2=34	N=3	ER_3=45

H = 6.896 (observed value)

H critical value at .05 level of significance and 2 degrees of freedom is equal to 5.991.

Based on the observed value of both "F" and "H" (compared with their critical values) it has been established that significant difference exists between the means and ranks of FDI's benefits examined with regard to their importance to the development of Egypt(*). i.e. there is a significant difference of opinion regarding the relative

(*) The larger the observed value of "F" and/or "H", the more likely thatsignificant differences exist between the types of FDI's benefits.

importance of the FDI's benefits in relation to Egypt's development. Additionally, the academic staff were asked to rank inorder of importance the economic, technological, cultural and socio-political benefits of FDI in very broad terms. In response to this question, table (E-24) shows the number of responses that have been received, percentages and rank of each broad area of FDI benefits. Looking at the ranks of FDI benefits in table (E-24) in the light of the values of $\overline{X}$ appearing in table (E-23), it is obvious that the technological contribution of FDI to Egypt's development have been considered as first in order of importance, followed by the economic contributions and then the cultural and socio-political ones. Taking into account the previously analysed characteristics of the Egyptian economy it is not

Table (E-24) The relative importance of the broad areas of FDI's benefits.

(N=49)

Area of benefits	Order of importance in which area of FDI benefits was cited						Rank
	(1)		(2)		(3)		
	Number of responses and percentages						
	No.	%	No.	%	No.	%	
Economic	22	45	24	49	3	6	(2)
Technological	25	51	19	39	5	10	(1)
Cultural & Socio political	2	4	6	12	41	84	(3)
Total Responses & percentages	49	100	49	100	49	100	-

surprising that the academic staff put more emphasis on technology transfer or that they believe that the development of Egypt is dependent upon continued inputs of FDI in general and in particular those inputs related to technology, foreign capital, and other types of resource transfer and benefits. Finally, in view of the study hypotheses referred to, it could be established that increasing demands will be made on FDI to provide greater benefits to Egypt taking into account that the preceding reaslised findings regarding the attitude towards FDI, together with that outlined in Section (C) which probably indicate that the conditions governing the Egyptian economy in general will arguably not be as restricted as in the period prior to 1974.

Second: In an examination of the overall judgement/or opinion of the executive managers of the BMNCs regarding the benefits they may consider that Egypt has acquired as a result of their companies' presence in Egypt, Table (E-25) shows some interesting findings realised of which the following are exammples: (1) The executive managers of the BMNCs by and large believe that Egypt has acquired in general all of the benefits examined (see column no.3). (2) In order of importance, employment and resource transfer affects (e.g. technology, know-how, and capital), were considered as main benefits gained by Egypt through the presence of the BMNCs there (see column no.5).

Table (E-25) The contribution of BMNCs to Egypt's development: overall judgements of the British managers.

Type of Benefit	(1) Order in which a type of benefit was cited — Number of Responses						(2) Number of responses out of 19 in which a type of benefit was cited	(3) Number of possible responses in which a type of benefit was not cited	(4) Weighted Score(+)	(5) Rank
	1	2	3	4	5	6				
Job creation, training nationals, etc.	8	5	4	-	-	-	17	2	89	(1)
Import substitution and export earnings	2	2	1	7	3	1	16	3	54	(5)
Capital inflows	4	5	-	3	4	-	16	3	66	(3)
Technology, know-how, etc.	6	2	9	1	-	-	18	1	85	(2)
Satisfying the needs of local markets	-	5	3	3	5	-	16	3	56	(4)
Others **	-	-	-	-	-	6	6	13	6	(6)
Total	20*	19	17	14	12	7	89	-	-	-

(+) Calculated as described earlier (taking into consideration the order in which each type of benefit was cited)

(*) This figure does not equal 19 because of multiple responses.

(**) Including: providing infrastructural facilities and projects / implementing local training programmes as reported by the respondents.

Third: In has been that "while the role of FDI has long been the subject of controversy since the promulgation of law no.43 of 1974, Egypt has gained some benefits from such investment". To examine this assumption, it has been considered useful to refer in general to the benefits realised since 1974 (according to the previous analysis undertaken in chapter (2) in section (C)) as follows(taking into account the arguments put forward in this connection):

1) Resource transfer effects.In this connection two major types of resource transfer effects can be outlined:(*)

(A) The provision of foreign capital,foreign capital inflows or participation in inland investment projects up to 1983 was as follows: (a) approved projects accounted for £E 3428.3 million, (b) projects in operation amounted to £E 1197.4 million and (c) projects under implementation totalled £E 743.7 million.

In terms of the Free Zones projects, foreign capital participation up to 1983 was as follows: (a) approved projects totalled £E 1185.3 million, (b) projects in operation totalled £E 448.1 million, and projects under implementation accounted for £E 108.2 million. Additionally, under law no. 159 of 1981, foreign capital realised up to the 30th of June 1983, amounted LE 21070 (thousand).

(B) Technology transfer e.g. It has been illustrated in this resepct, that the number of licenses was 740 in 1975 and the amount of actual investment undertaken in this connection totalled £E 67,124(+). In fact, the realised

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(*) See tables (C-36), (C-37), (C-38) and (C-39); see also tables nos. (7), (8) and (9) in Appendix A.

(+) See table (C-42).

number of licenses and the size of investments undertaken in that year were more than double those realised in 1973 i.e. before the adoption of the 1974 policy.

2) Employment: From 1974 to 1981, for example, the estimated number of job opportunities of the inland projects that started production was 63,577. While in 1983 the estimated number of job opportunity in the inland approved projects amounted to 218,396 (*) and the estimated amount of wages was £E 313,157 (**).

3) Trade and balance of payments effects. From the data presented in tables (C-45), (C-46) and (C-47) it is evident that in 1982 import substitution gains totalled £E 685 million and exports earnings amounted to about £E 32 million. As a result the value added reached £E 414 million. Moreover, the value added to the GNP i.e. the value of products and services realised totalled £E 1167 million in the same period. These realised benefits, however, may arguably sustain the balance of payments and the trade account in general.

(4) Other benefits: It has also been demosntrated as shown in table (C-48) that the private sector's share in the investment projects (inland) which accounted for over 30% of the total capital invested is quite encouraging (+).

(*) Excluding foreigners.

(**) More detail is to be found in table (C-44).

(+) See for example table no. (C-48).

Furthermore, on the basis of the geographic distribution of the investment projects portrayed in table (C-49) and despite the fact that most FDI projects have been concentrated in a few regions, it is nevertheless possible to argue that FDI has contributed benefits to provinces other than Cairo, Giza and Alexandria.

In the light of the above summarized data together with those reported in detail in Chaper (2) in Section (C), it appears that Egypt has acquired some valuable benefits from FDI since 1974. In this regard it must be noted also that the same benefits could arguably be achieved more effectively by ways other than FDI. Yet,the experience of Egypt over the two decades prior to 1974 - as illustrated in Section (C) - may lead to the conclusion that it is not possible to ignore the preceding outlined contributions of FDI to Egypt's overall development whether or not Egypt is successful in this respect.(++)

Finally, in view of the neo-conventional argument for FDI and/or MNCs in general, the foregoing findings may arguably indicate that Egypt's overall economic and political capabilities will probably be increased as a consequence of mechanisms such as: foreign firms can add to the productivity of the domestic labour force through training and development programmes, transferring new managerial skills, and additional knowledge, etc. (b) provision of new products and/or

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(++) See point 2.4 later in the current chapter.

services, (c) undertaking R & D programmes and transferring new patents and technical know-how, (d) value added to GNP and productive use of local resoruces, (e) positive effects on local entrepreneurs, (f) improvement in balance of payments through e.g. inflow of foreign capital (or export potential and import substitution), and (g) encouragement of production linkages between domestic and foreign firms etc.

It is nevertheless improtant to mention that the cost of achieving these contributions/benefits is possibly disadvantageous. In other words, even assuming that the requirements and production facilities, etc. are available in the host country concerned, the FDI's contributions are likely deterrants to some extent as the following analysis may reveal.

2.3 Anticipated costs of FDI in Egypt

With regard to the adverse impact of FDI it has been assumed that while the Egyptian elites probably realise the benefits potential of FDI, the classical critics against such investment will possibly persist in their opposition on important issues. Additionally, whereas the FDI has relatively contributed some benefits to Egypt the cost of such investment is probably unavoidable. It has been also expected in this connection that indigenous firms have encountered several types of obstacles attributable to FDI. With reference to this point, the following analysis presents an examination of two points of view as follows:

(1) <u>The academic staff point of view</u>:

The respondents were asked to rank in order of importance a number of anticipated adverse impacts of FDI and/or undesirable activities of foreign firms in Egypt. As appears in table (E-26)on the following page the responses refelct to a great extent the fact that the academic staff appreciated all the possible undesirable effects of foreign firms activities on Egypt's development (see columns no. (1) and (2) in the table). In other words, the adverse influences of FDI examined have been considered as causes for concern (or potential problems) from the viewpoint of the overwhelming majority of the respondent interviewed. The economic influences in general - as the value of $\overline{X}$ indicates - were viewed as the most insistently pressing issues of FDI. These are followed by the questions/issues of technology transfer i.e. assisting Egypt's R & D, training programme, etc. and then the socio-political and cultural effects. Bearing in mind the classic arguments against FDI/foreign firms' activities, and using the ranks appearinq in column no. 4 in table (E-26). the following are apparently the most frequent criticisms directed at FDI and/or foreign firms (regarding e.g. resources transfer effects, balance of payments, employment,e tc.) in Egypt(*):

(*) It may be useful to go back to the earlier argument, outlined in chapter (2) in Section (B), (exhibit B-3 is also useful in this respect.

Table (E-26) Academic staff point of view towards anticipated undesirable influences of foreign activities in Egypt (*)

(N=49)

Type of Influence (**)	Total Responses or/number of cases out of 49	Possible no. of cases in which a type of infl. was not cited.	Weighted Scores+	Ranks
I. Economic influence:				
Foreign firms create monopoly and economic domination	43	6	301	9
Foreign firms compete with the local firms in terms of export.opportun.	44	5	345	7
Foreign firms cause a bad industrial "mix" by producing luxury goods	44	5	412	2
Foreign firms act frequently in ways contrary to the national interests	46	3	371	6
Foreign firms result in a foreign exchange drain & influence the balance of payments	43	6	388	4
Foreign firms cause an economic dependence on other nations	47	2	438	1
Foreign firms exploit local resources,local capital, local skills to the best of their interests only	45	4	401	3
Foreign firms produce and sell products for which their home market is declining	44	5	276	11
The activities/presence of foreign firms cause a loss of control over national planning and disturb national legislations and regulations	45	4	292	10
Foreign firms disrupt local working conditions	45	4	318	8
Foreign firms attract the indigenous skills from local enterprises	41	8	378	5
Foreign firms displace national investors	43	6	216	12
Others	1	48	10	13
Value of $\overline{X}$	-	-	318.9	-
II. Technological influences:				
Foreign firms are reluctant to adapt.and promote technology to meet local requirements	48	1	332	1
Foreign firms widen the technological gap between their home country and Egypt through bringing in out-dated technology	42	7	276	4
Foreign firms do not train, promote Egyptian nationals to top management positions.	44	5	282	3
Foreign firms do not contribute significantly to the national industrial training, R & D Programmes, etc.	44	5	289	2
Foreign firms casuse, and lead to a technological dependence on foreign countries and impair local innovations.	44	5	270	5
Foreign firms may be transferring knowledge, know-how which already exists locally.	39	10	194	6
Foreign firms' royalty licensing costs are too high	42	7	178	8
Foreign firms bring in advanced technology which does not conform the local skills or serve the national objectives	44	5	190	7
Others	1	48	6	9
Value of $\bar{X}$	-	-	224	-
III. Cultural and socio-political influences:				
Foreign firms disturb national culture and values, ways of life, and tastes,etc.	46	3	236	1
Foreign firms bring in unacceptalbe business practices (eg. bribes)	42	7	200	3
Foreign firms insist on the use of their own language	42	7	199	4
Foreign firms interfere and disrupt the national political climate	42	7	171	5
The presence of foreign firms enhance the political tension	42	8	162	6
Foreign firms do not respond to local cultural interests	41	4	222	2
Others	45	48	5	7
Value of $\bar{X}$	-	-	170.7	-

(*) Based on table nos. 8, 9 and 10 which appear in appendix (E).
(+) Computed as described earlier (under different order of importance in which a type of influence was not cited. (see the above note)
(**) The classification of types of influences was for the purpose of the survey inference.

(A) In terms of the issues of dependency, exploitative relationship, balance of payment effects, etc:

1. Foreign firms cause an economic dependence on other nations.
2. Foreign firms cause a bad industrial "mix" (by e.g. producing luxury goods).
3. Foreign firms exploit local resources, capital and skills in their own best interests.
4. Foreign firms produce a foreign exchange drain and influence the balance of payments.
5. Foreign firms attract the indigenous skills away from local enterprises.
6. Foreign firms act frequently in ways contrary to the national interests.

(B) With respect to the extent of technology transfer/ the transfer of inappropriate technology:

1. Foreign firms are reluctant to adopt and promote technology to meet the local requirements.
2. Foreign firms do not contribute significantly to the national industrial training, R & D programmes, etc.
3. Foreign firms do not train, promote Egyptian nationals to top management positions.
4. Foreign firms widen the technological gap between their home country and Egypt through bringing in out-dated technology.
5. Foreign firms bring about a technological dependence on foreign countries and impair local innovations.

These firms maybe also bring in knowledge, know-how, etc. which already exists locally.

(c) With regard to the transfer of inappropriate cultural patterns of consumption and business practices:

1. Foreign firms disturb national culture and values, way of life, etc.
2. Foreign firms do not respond to local cultural interests. They also insist on the use of their own language.
3. Foreign firms bring in unacceptable business practices (e.g. bribes).

Broadly speaking and as the previous discussion indicates in response to the neo-conventional argument that MNCs enhance or increase the overall economic and political capabilities of a given country (by means such as more productive use of domestic natural resources, bringing in the missing production inputs (e.g. capital technology/know-how etc., in addition to added value to the GNP and improved balance of payments, and so forth), the above realised findings demonstrate that critical arguments that MNCs' adverse activities may endanger and result in a reduction of economic and political capabiliteis of the host country concerned are primary concerns of the academic staff in Egypt. In other words, taking into consideration the previous argument in this connection, it is possible that the economic and political capabilities of Egypt may be reduced as a consequence of mechanisms such as foreing firms decreasing capital stock, exploiting local resources, etc., leading to dependence on additional foreign technology and capital which may make it possible that the drain of capital will increase. Furthermore, the transfer of limited, out-dated technology or the transfer of inappropriate technology, etc. can have adverse effects on the overall progress of the host country concerned.

Additionally, some respondents have reported other types of possible adverse influences such as: (a) foreign firms prodcue non-essential competition and reduce local savings, (b) they bring in consumers' goods technology rather than the production industrial one, and (c) foreign firms cause social duality.

Finally, it is perhaps interesting to emphasise the following two points relevant to the previous analysis: First: The respondents were required to rank in order of importance the three groups of FDI's adverse influences in very broad terms. The result realised can be illustrated through table (E-27) below. From this table, it appears that the economic impact of FDI is ranked first in order of importance, second is the technological impact and the third rank is given to the cultural and socio-political influences.

Table (E-27) Rank of the broad areas of FDI's influence on the development of Egypt.

(N=49)

Area of influence	Order in which area of influence was cited						Rank
	(1)		(2)		(3)		
	Number & percentage of responses						
	No.	%	No.	%	No.	%	
Economic	27	55	14	28.5	8	16.5	(1)
Technological	13	26.5	23	47	13	26.5	(2)
Cultural and socio-political	11	22.5	10	20.5	28	57	(3)
Total Responses	51*	104	49	100	49	100	

* Figures and percentage do not equal 49 and 100% because of multiple responses.

In the light of the ranks displayed in table (E-27), compared with those ranks that can be given to the three groups of FDI's influences on the basis of the value of $\overline{X}$ portrayed in table (E-26) it is obvious that the value of r_s between both ranks will be equal to unity (i.e. 1.0). With the previous analysis of the study findings on the positive impact of FDI borne in mind, it may be true that because the academic staff expressed general agreement about the importance of the technological and economic contributions of FDI, the possible negative impact of such investment on the same areas of Egypt's development are primary causes for concern as well.

Second: Using the weighted scores shown in table (E-26), an ANOV analysis and H-test have been applied as the summary in the folloiwng table (E-28) and (E-29) illustrates. Comparing the observed values of "F" and "H" with their critical ones, it is evident that significant differences of opinion exist with respect to the possible adverse influences of FDI examined relative to the development of Egypt. In other words, the academic staff by and large believe that the negative impact of FDI seems to differ substantially between each other in connection with Egypt's development. The evidence of this result is also obvious in the light of the ranks that appear in table (E-26). In short, the findings realised illustrate that not all the types of FDI's effects examined have or exert the same degree of influence on Egypt's general development. These findings in general support the study assumption formulated earlier.

Table (E-28) An ANOV - for unequal sample sizes - Summary

Source of Variation	SS	df	MS	$F^{(*)}$
Between groups	111388.4	2	55694.2	5.52
Within groups	262005.4	26	10077.13	
Total	373393.8	28	-	

* F critical value = 5.53 at .01 level of significance and df 2 corresponding to MS between groups and df 26 corresponding to MS within groups.

At .05 level of significance corresponding to the above degrees of freedom is equal to 3.37.

Table (E-29) H-test : summary

(K=3)

Economic Influences	Technological Influences	Cultural & socio political influences	
Rank	Rank	Rank	
10	8	17	
7	14.5	20	
2	13	21	
6	12	25	
4	16	26	(*) H=13.866
1	22	18	
3	24	29	
14.5	23		
11	28		
9			
5			
19			
27			
N= 13 ER_1=118.5	N= 9 ER_2 = 160.5	N=7 ER_3 = 156	

* H critical value (using the distribution of X^2 where the sample sizes exceed 5 elements) is equal to 9.210 at K-1 degrees of freedom, where K = the number of samples.

(2) The viewpoints of the executive managers of the indigenous firms:

Because the Executive managers of the indigenous companies are close to the market realities, it was thought useful to explore their opinion in terms of (a) the main problems that the state-owned enterprises have encountered as attributable to the FDI over the period 1978/79-1983/84, (B) the types of conflicts that have arisen between the state-owned enterprises and the existing foreign firms, and (c) the main problems in functional activities that will be encountered by the public firms in 1989/1990 as the consequences of FDI and/or foreign firms activities.

The managers interviewed were firstly asked to rank in order of importance some types of problems in respect of production, marketing, personnel and financial activities which their companies encountered as a consequence of FDI. The findings on this point are contained in table (E-30) which shows the number of responses, weighted scores and ranks etc. in relation to each type of problem examined.

The results shown in table (E-30) provide evidence that may generally suggest that the FDI has created numerous problems affecting the implementation of the activities of the state-owned firms. The ranks appearing in column no. (4) for instnace indicate that the managers surveyed seemed more concenred with the following problems.

(1) The shortage of raw material, machinery, parts, etc.

(2) Intensive/excessive competition in terms of product, quality, price, etc. as well as the decline of the

Table (E-30) Major problems encountered by the state-owned enterprises attributable to FDI over the period 1978/79 - 1983/84 (*)

(N = 30)

Areas and types of problems	Total no of resonses out of 30 (1)	Poss.no. of resp-onses in which a type of problem was not cited(2)	Weighted Scores (3)	Rank (4)
I. <u>In respect of production:</u>				
1) Shortage of technicians, skilled workers, etc.	27	3	159	2
2) A shortage of raw material, machinery, parts, etc.	27	3	186	1
3) Surplus capacity due to (1) and (2).	27	3	142	3
4) Others	-	20	-	4
Value of $\bar{X}$	-	-	162.3	-
II. <u>In respect of marketing:</u>				
1) Causing a decline of the company's market share in general	27	3	124	3.5
2) Intensive/excessive competition in terms of prod.,qual.,price,etc	27	3	160	1
3) Shortage of sales force because of competitive recruitment	27	3	124	3.5
4) Shortage of number of distribution channels and outlets	24	6	73	6
5) Increase in advertising costs and promotional efforts	24	6	81	5
6) The loss of professional marketing managers to the foreign companies	27	3	147	2
7) Others: surplus inventory(+)	1	29	1	7
Value of $\bar{X}$	-	-	101.4	-
III. <u>In respect of personnel:</u>				
1) Shortage of Egyptian personnel & managerial skills	30	-	185	2
2) Dissatisfaction with working conditions and climate	30	-	204	1
3) Others: disrupt the innovation efforts & personnel initiatives	1	29	7	3
Value of $\bar{X}$	-	-	132	-
IV. <u>In respect of Finance:</u>				
1) Shortage of local capital and foreign exchange	30	-	189	2
2) Increased interest rates because of borrowing by foreign co.	30	-	201	1
3) Others	-	30	-	3
Value of $\bar{X}$	-	-	195	-

(*) Based on table no. 11 which appears in appendix (E) (using the weighting scale techniques - which has been described earlier).

(+) Reported by one respondent.

companies' market share in general.

(3) The loss of professional marketing managers to the foreign companies.

(4) Dissatisfaction with working conditions and climate.

(5) Shortage of Egyptian personnel and managerial skills.

(6) Increased interest rates because of borrowing by foreign firms.

(7) Shortage of local capital and foreign exchange.

Based on the weighted scores that appear in table (E-30), the previous page, an H-test has been applied to examine how significant are the differences in opinion regarding the types of obstacles which have been experienced by the companies surveyed. As table (E-31) indicates, the observed value of "H" is lower than its critical one. This may suggest that no significant differences exist between the opinion of the excecutive managers in respect of the problems which have been created as a result of FDI and/or the presence of foreign firms in Egypt over the period 1978/79-1983/84. Moreover, using the value of $\overline{X}$ that appears in table (C-30) it is apparent in general that financial problems created as a consequence of FDI can be ranked as first in order of importance, followed by problems in the field of production and personnel and, in fourth place, the marketing problems.

Secondly, respondents were required to indicate types of conflicts that have arisen between their firms and their foreign counterparts since 1974(*). Table (E-32) accordingly, illustrates that the most frequent types of conflicts that

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(*) It is probably useful to mention that the selection of respondents took into account the requirements of the questions posed.

Table (E-31) H-test

Production		Marketing		Personnel		Finance	
Scores	Rank	Scores	Rank	Scores	Rank	Scores	Rank
159	7	124	10.5	185	5	189	3
186	4	160	6	204	1	201	2
142	9	124	10.5	7	14		
		73	12				
		81	12				
		147	8				
		1	15				
N_1=3	ER_1=20	N_2=7	ER_2=75	N_3=3	ER_3=20	N_4=2	ER_4=5

K = 4
H = 6.135 (observed)
H critical value at 3 degrees of freedom and 0.01 level of significance in the X^2 distribution's table is equal to 11.345.

Note: It must be noted here that H value is treated as an X^2 value for interpretative purposes in the table.

have arisen between these companies (i.e the indigenous and the foreign firms) lie in two main areas: (a) labour relations and recruitments, etc. and (b) pricing policy.

Table (E-32) Areas of conflict that have arisen between state-owned enterprises and foreign firms since 1974.

(N=30)

	Areas of Conflict	No. of firms mentioned each type of conflict	%
1)	Location of foreign firms	1	3.3
2)	Sources of the raw materials	9	30
3)	**Labour relations, recruitment, etc.**	18	60
4)	Infrastructural facilities	6	20
5)	Implementation of the advertising and promotional programmes	8	26.6
6)	The use of mass media	4	13.3
7)	**Pricing policy**	18	60
8)	The use of outlets, warehouses, distribution channels, etc.	6	20

Finally, the managers surveyed, were required also to cite in order of importance some broad areas of problems that their companeis will encoutner during the five year period commencing (1989/1990) as a result of FDI the study findings in this connection as portrayed in table (E-33) revealed that after five years the respondents by and large expect that the first problem their firms will face is

Table (E-33) Broad areas of problems that will be encountered by the state-owned companies attributable to the presence of foreign firms during the five year period commencing 1989-90.

(Total N=30)

Area of Problem	Order in which area of problem was cited					Total Responses	Possible no.of responses in which a problem was not cited	Weighted Score(+)	Rank
	1	2	3	4	5	(Out of 30)			
	Number of cases/responses								
Production problems(*)	3	3	10	6	5	27	3	74	(4)
Marketing problems(*)	3	10	4	7	3	27	3	84	(2)
Personnel problems	19	6	2	3	-	30	-	131	(1)
Financial problems	2	7	5	10	6	30	-	79	(3)
Export/import problems	3	4	9	1	13	30	-	73	(5)

(*) **Three export/import companies were excluded as inappropriate.**

(+) Calculated on the basis of the order in which each area of problem was cited as already described.

personnel, and in the second comes marketing problems followed by the other types of problem. Comparing this result with that which has been reported earlier one will find that the financial problems ranked the first during the period 1978/79 1983/84, followed by the production, then the personnel and the marketing problems ranked in the last position.

In the light of table (E-33), it is not surprising that both personnel and marketing problems are regarded as most likely to be the prime concern of the executive managers of the public companies after a period of five years. In actual fact most - if not all - foreign firms operating in Egypt under law no. 43 of 1974 enjoy a wide variety of privileges with respect to employment conditions i.e. they have been exempted from local labour laws. For instance, foreign companies are free to apply their own working conditions and wages schemes and labour representation on the board of directors is not applicable to foreign firms(*). Such type of privileges - with the possible high wages paid by foreign firms taken into account - make probable the departure of labour force and managerial talents from the indigenous firms to the foreign ones. On the other hand, it is also possible that the state-owned companies will encounter acute competition in the future with the increasing number of foreign firms. This in turn may lead to an

(*) Further detail is to be found in chapter (3) in Section (C), and appendix (B).

increase in the level of the marketing activities to be undertaken and in the related expenditure required to enable public companies to compete with foreign ones.

The preceding findings in general indicate certain fundamental problems faced by the indigenous firms. For instance, it was widely agreed that intensive competition, the decline of companies' market share and the loss of professional marketing managers and skilled manpower to the foreign firms etc. are major problems confronting the state-owned enterprises as a result of the presence of foreign firms. Potentially, there is also a genuine fear that foreign firms could become monopolistic powers in both types of markets purchasing production inpüts and selling outputs. In other words, there is widespread concern among the executive managers surveyed over the potentially adverse impact of the foreign firms' market domination as well as over the effect on the existing labour force (managerial and skilled manpower) particularly in the national companies. In response to the conventional view that MNCs may break local monopolies (or increase local competition) the present study findings provide evidence to suggest that the displacement of indigenous firms is also possible because of dominance of MNCs. As preceding findings indicate, for example, that foreign companies can offer wage scales that make them more attractive than indigenous firms, they can take advantage of capital-intensive techniques and marketing know-how, increase interest rates because of borrowing local capital etc. All these are examples of mechanisms which may cause displacement of domestic firms by foreign ones.

Finally, in view of the study assumptions, the preceding realised findings in general provide evidence to confirm the hypotheses put forward in this connection (where the indigenous companies have encountered several types of problems as a result of FDI).

2.4 The status of FDI: The contingency of its impact

It has been demonstrated that Egypt has acquired certain types of benefits attributable to FDI. Also, the present attitude towards FDI (expressed by the academic staff, the executive managers of the public firms and the senior-decision makers of GAFI and GOFI) is generally positive and encouraging. Additionally, it is evident from the study findings that the academic staff have shown greater anticipation of both the positive and negative impact of FDI in relation to the development of Egypt. They appreciate for example benefits such as the utilization of local skill and training, capital inflow, increase of R&D activities, etc. at the same time, these contributions of FDI do not imply that the academic staff and the executive managers are unconcerned about issues such as economic domination and dpendence, displacement of local firms, and so forth.

As argued earlier, FDI seems to be a two-edged sword i.e. there are benefits . . that can be gained and costs that can be incurred). The impact of such investment on the host country's development is arguably contingent upon numerous factors. ie. the extent to which the host country can benefit from FDI is relatively dependent on factors in economic, political and cultural development as well as on policies and practices toward such investment, etc.

In short, as far as the present study is concerned, it has been assumed that the contribution of FDI to the development of Egypt is modest(*).

Taking into account previous investigation of Egypt-specifics including policies, practices towards FDI, etc., it is evident from the study findings that the modest contribution of FDI to Egypt at present is probably due to the existing problems and factors in Egypt-specifics which affect the implementation of the activities of foreign companies. In this connection, the experience of the BMNCs in Egypt revealed numerous types of obstacles which impede the execution or their activities. Despite repetition, it would be useful to note briefly some of these problems as follows:(ǂ)

(a) The lack of market information regarding current and prospective investment opportunities, (b) constraints related to the availability of finance, (c) government control (on pricing import-export and foreign exchange) (d) bureaucracy, (e) lack of marketing and production

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(*) See the analysis undertaken in chapter two, section (C).

(ǂ) More detail is to be found on points nos. 1.3,1.5 and 1.6 in chapter (1) of the present section.

facilities, (f) reluctance to move to capital rather than labour intensive investment projects and the utilization of many inefficient production techniques, (g) lack of business understanding by government officials, (h) lack of skilled manpower, and the limitations imposed on the use of non-Egyptian labour and (i) lack of adequate infrastructure and financial support,e tc.

Furthermore, with the above constraints in mind - it has also been demonstrated - based on the BMNCs experience also - that a foreign firm's decision to undertake new or additional investment in Egypt may be influenced by factors in the policies and practices towards FDI such as(+): (a) the limited forms of FDI currently permitted by the Egyptian government, (b) the slow and unnecessarily complicated procedures attached to the investment approval system, (c) ambiguities existing in Egypt's investment law ie. law 43 of 1974 including the continuous changes in the legislation concerning FDI in general, and (d) the absence of better conditions regarding trade, repatration of profits and capital, etc.

Additionally, the previous analysis of the current status of FDI in Egypt provides evidence to suggest that the contribution of such investment indicates the importance of factors such as:

(+) Further detail regarding the assessment of Egypt's policies toward FDI will be provided in the next chapter.

(1) Size factors.

(2) Selection of investment projects (including the choice of technology).

(3) Preconditions and performance requirements.

(4) The feasibility of the type of incentives granted.

(5) Government control and direction of investment projects.

Among the factors relevant to the present theme are probably size factors (leaving the other factors to be discussed in the next chapter). Size factors here concern the importance of the size of invested capital as a whole in connection with the realised benefits of FDI (and its distribution) in the light of e.g.:-

(a) The amount of capital invested in every project and its importance to resource transfer effects (i.e. technology, managerial skills, capital inflow, employment creation, etc.

(b) Geographic distribution of investment projects relative to the objective of assisting the depressed regions.

(c) Incentives awarded compared with the amount of investment in the project concerned relative to attracting more investment, improving the balance of payments, etc. (see the next chapter for discussion of this point).

(d) Total costs of investment project (in relation to (c)).

(e) Types of investment projects (i.e. the natureof activities involved in projects).

(f) Foreign capital share in the investment projects (in relation to resource transfer effects).

In view of the study assumption referred to, taking into account the fact that it may be difficult to reach more definite conclusions regarding the effects of size factors relative to the contribution of FDI and this for reasons related for instance to: (1) the general policies and practices towards such investment and their relevance to foreign firms, (2) the inter-relationship between the various effects of FDI as demonstrated before, etc. The preceding analysis of FDI inflow and impact highlighted in chapter two in the context of section (C) provides evidence to suggest that the present status of FDI does not conform in general to size factors relative to expected contributions of such investment to the development objectives in Egypt. This is evident from the following summarised examples based on statistical data reported earlier as to inland approved projects(*):

1. Total foreign capital invested from 1974 to 1983 amounted to £E 3428.3 million (i.e. 31% of the total approved investment projects - see table C-39).
2. The average of foreign capital shares in each inland approved project amounted to £E 2.46 million (table C-41).

(*) As an arbitrary factor it is probably interesting to look at the size factors in investment projects in the light of the data concerning the profile of BMNCs surveyed in table (D-2).

3. The average total cost of each inland approved projects was £E 7.8 million (see table C-42). This is to be compared with no. (2) above.

4. Total annual foreign capital inflow during the period 1974 to 1983 was about £E 109.25 million.

Relatively speaking, based on the above facts, it appears that the FDI projects formed make no significant contribution to Egypt's development in relation to: resour ce transfer effects, balance of payments, employment, etc. in their broad and detailed terms.

5. Regional distribution of FDI approved projects in each province accounted for £E 221 million up to 1983 (See table C-49).

6. Non-industrial projects accounted for 68% of total investment projects up to 1983 (see more detail in table nos. 7, 8 and 9 in appendix A): additionally, most of FDI projects in the free zones are warehousing, storages (see table no.10, app. A).

On the basis of (5) and (6) it is apparent that FDI add little benefits to the development of and the building up of Egypt's industrial base.

As a conclusion, it is perhaps useful to note that the academic staff were asked to indicate whether or not they agreed about the dependence of FDI benefits on factosr such as size of invested capital, types of projects, etc. The respondents overwhelmingly agreed with the statement referred to. This agreement is evident in table (E-34).

Table (E-34) The dependence of FDI benefits on the size of invested capital, types of projects, forms of FDI allowed and the viability of the host country's overall environment.

(N=49)

Yes		No		Not sure	
No.	%	no.	%	no.	%
45	92	1	2	3	6

Finally, the above analysis appears to support the study hypothesis that the larger the size of the invested foreign capital the greater would be the benefits to Egypt.

2.5 Concluding Remarks

On the whole, it has been established that the previous analysis provides evidence to support the study hypothesis (no. 4) put forward. At the same time, it would be appropriate to point out the following major points based on tbe present examination of the impact of FDI in Egypt:

(1) The overall effects of FDI in Egypt have been considered by and large majority of the Egyptian elites as positive i.e. the attitude towards FDI in Egypt is generally positive.

(2) While the role of FDI became the subject of controversy since 1974, Egypt has benefited to some extent from such investment. Meanwhile, the modest performance of FDI in Egypt indicates the importance of factors such as size factors, selection of investment projects, government direction and

control of FDI projects, feasibility of incentives programmes designed, etc. (taking into account the findings realised in Chapter 1)(*).

(3) The Egyptian elites put more emphasis on the role of technological benefits of FDI to Egypt. Additionally, while the academic staff acknowledged the potential benefits of FDI (transfer resource effects, employment, etc.) they regarded as are most continuously important issues the classic criticisms against the activities of foreign firms in relation to several economic influences such as exploiting local resources, balance of payments effects, economic dependency, etc. Furthermore, in view of the adverse and positive impact of FDI in Egypt it was found that significant differences exist among the opinion of the academic staff towards such influences in relation to Egypt's development.

(4) Whereas the cost of FDI is probably unavoidable, this type of investment creates some problems and areas of conflict between the indigenous firms and foreign ones particularly in areas such as labour relations, pricing, personnel, etc.

(5) In general, it seems that Egypt will have to continue to rely on substantial transfer resources inputs (capital, technology, etc.) and other gains in which areas FDI can play an important role.

(*) Further illustration is to be found in the next chapter.

Finally, despite the limitations on the assessment of gains and losses from fDI in a given host country, the approaches adopted here and inconsequence the realised findings of the current attempt/study have revealed - even to some extent - the overall perception of a sample of the Egyptian elites towards FDI,a s well as highlighting how significant the impact of this type of investment is in a developing country such as Egypt.

CHAPTER (3)

REQUIREMENTS FOR POLICY CHANGE

Introduction

It has been demonstrated earlier that the contribution of FDI to the development of Egypt is unequivocally modest. Taking into account the proposition that law no.43 of 1974 concerning FDI was not introduced without careful planning or detailed studies, the poor performance of such investment over the past decade is therefore, a matter that requires consideration from two angles: first, reasons must be found to explain the poor performance of FDI which has produced the need for policy changes and second, attempts must be made to determine what courses of action would be likely to improve the contributions of FDI in Egypt.

Partly, the previous analysis of the study findings provides evidence to suggest that factors in Egypt-specifics, and to some extent - the features of FDI policies are among the reasons which may be responsible for the modest performance of FDI. This is in addition to the size factors in FDI projects.

To assess the validity of the study hypotheses referred to (i.e. H.5 and H.6), the current chapter aims to shed light upon reasons other than those examined earlier which may account for the poor achievement of FDI, as well as to present the findings of the field research regarding the kind of policy changes that should be introduced.

3.1 Reasons behind the modest performance of FDI and the need for requirements for policy changes

The experience of BMNCs in Egypt - as illustrated earlier - does highlight numerous issues and deficiencies in Egypt's policies and practices regarding FDI. Ambiguities in law no. 43 of 1974, lack of co-ordination between government agencies concerned with FDI, overlapping systems and unproductive procedures in relation to investment projects approval, limited forms of FDI permitted etc. are all factors or issues in Egypt' policy encountered by the BMNCs investing in Egypt and in consequence they probably effect the inputs of FDI to Egypt's development in general.

In seeking further demonstration of reasons, issues, etc, in policies and practices towards FDI which on the one hand may explain the poor performance of such investment, and increase the improtance of policy changes on the other hand, the following is an analysis of the study findings based on both the field survey and the investigation of the current FDI policy (organization, implementation, etc.) in the context of other developing countries' experience with FDI.

(1) <u>Findings realised from the field survey</u>. According to the study methodology, the senior decision makers of GAFI in Cairo, together with both GOFI and the official representatives of GAFI abroad, including the Egyptian British Chamber of Commerce in London were asked to indicate some aspects relating to policies and practices and

the greatest problems and areas of difficulty they have encountered in dealing with foreign investors. The main results are as follows:

1) The senior decision-makers of GAFI and GOFI have reported the following problems(*):

   A. Basic data and statistics concerning the Egyptian market's needs are not available.

   B. Joint venture investment forms still dominate Egypt's investment policy's main orientation.

   C. Lack of information, financial commitment that should be provided by foreign investors regarding their investment proposals.

   D. Foreign investors generally use the wrong approach i.e. they either do not conform to the conditions approved previously (particularly with regard to machinery and equipments,etc) or they do not come directly and contact GAFI.

   E. Imports measures, restrictions, etc. are so severe.

   F. The contradictions and instability of investment laws and regulations.

2) According to the responses of the experience of the official representatives of GAFI abroad (including the Egyptian-British Chamber of Commerce in London) the major obstacles they have encountered in dealing with and contacting foreign investors are as follows:(*)

(*) It is interesting to note that some of these obstacles were mentioned earlier by the BMNCs.

(A) Lengthy negotiations with the investors.

(B) Emphasis by investors on the protection requirements (e.g. customs protection and facilities).

(C) Unfamiliarity of the investor concerning the assistance available for him through the specialised agencies in his country dealing with overseas investment.

(D) Inflexibility by the investors in adjusting to the buiness patterns of the host country (Egypt).

(E) Fluctuation in foreign exchange rates, especially with regard to the Egyptian pound and the dollar.

When the respondents were asked to indicate whehter any problems had been discussed with foreign investors with regard to their investment projects/proposals in Egypt, the overwhelming majority (5 out of 6) of the respondents have answered "Yes".

In their elaboration, the respondents have cited the following types of problems:

(a) Problems related to the financial structure of the project e.g. debt/equity ratios.

(b) Problems related to the terms of technology transfer, such as technical assistance and management contracts.

(c) Problems related to the selection of potential partners.

(d) Problems related to (a) the project's location.

(b) infrastructural facilities.

(c) labour conditions.

(d) local suppliers.

(e) export potential.

(e) Finally, problems with regard to the explanation of laws and provisions governing investment in Egypt.

(3) In response to the enquiry about the reasons behind the tendency of both national and foreign investors to establish storage and servicing projects rather than manufacturing plants in the free zones the senior decision-makers of GAFI reported the following reasons: (a) to promote foreign and national investors as a first step toward the open door policy (b) lack of experience (c) 100% ownership investment form is generally prohibited in terms of the inland projects, in addition to the monopoly issues.

(4) Methods employed for reaching foreign investors and promoting investment opportunities. In this connection GAFI and GOFI's officials were required to indicate the methods employed as described earlier in the study methodology. Table (E-35) (on the following page), therefore illustrates responses to this enquiry.

In order to make an overall comparison between the methods employed to reach foreign investors and promote investment opportunities abroad, the researcher has given numerical scores instead of the descriptive frequencies of using a method, as follows: "always" is evaluated by 4, "usually" it was evaluated by 3, "sometimes" by 2, "rarely" by 1, and "never" by 0. Thus, each time a method was cited by a respondent it was multiplied by the proposed number according to the type of responses. The total scores for each method is therefore calculated by adding up the individual scores across the types of responses adjacent as shown in Table (E-36).

Table (E-35) Methods employed for reaahing foreign investors and promoting investment opportunities abroad.

(N = 9)

Method Employed	Descriptive frequencies in which a method was cited					Total Responses (out of 9)
	always	usually	sometimes	rarely	never	
	Number of responses/cases					
(1) Advertising through international press/ magazines.	1	-	2	1	6	9
(2) Visits abroad	-	1	4	3	1	9
(3) Sponsoring visits for the investors to Egypt (1)	-	-	3	3	3	9
(4) Personal contacts	-	-	2	1	6	9
(5) Agents & trade unions abroad	-	-	2	2	5	9
(6) GAFI's representatives abroad	6	1	-	-	1	9
(7) Conferences held abroad & locally	1	2	4	1	1	9
(8) Local advertising	2	1	-	-	6	9
(9) Direct mail to foreign companies	-	-	1	1	7	9
(10) Others						
-GAFI's publicat.	3	-	-	-	-	3
-Cairo International exhibition and fare.	1	-	-	-	-	1

(1) The respondents have adduced that the use of this method depends solely on the US.A. aid i.e. the government of Egypt does not sponsor any visits for foreign investors.

Table (E-36) Scores and ranks by use of the methods employed for reaching foreign investors and promoting investment opportunities abroad.

Method	Distribution of Scores 4	3	2	1	0	Total Scores	Ranks by use
(1) Advertising through international press/ magazines	0	0	4	1	0	5	(8.5)
(2) Visits abroad	0	3	8	3	0	14	(3)
(3) Sponsoring visits for the investors to Egypt	0	0	6	3	0	9	(6)
(4) Personal contacts	0	0	4	1	0	5	(8.5)
(5) Agents and trades union abroad	0	0	4	2	0	6	(7)
(6) GAFI's representatives abroad *	23	3	0	0	0	27	(1)
(7) Conferences held abroad and locally	4	6	8	1	0	19	(2)
(8) Local advertising	8	3	0	0	0	11	(5)
(9) Direct mail to foreign companies	0	0	2	1	0	3	(10)
(10) Others							
- GAFI's public.	12	0	0	0	0	12	(4)
- Cairo international exhibition and fare	4	0	0	0	0	4	(11)
Total Scores	52	15	36	12	0	115	

From table (E-36), it appears that the most frequent methods employed by GAFI to reach the foreign investors and to promote investment opportunities are as follows:

- GAFI's official representatives abroad.
- Conferences held abroad and locally.
- Visits abroad.
- GAFI's publications.

It seems however, that the above methods employed by GAFI are not enough to promote investment effectively or to reach foreign investors.

(5) The official representatives of GAFI abroad were required to indicate whether or not they have any previously determined plan for promoting and attracting the foreign investors for investment in Egypt. In response to this enquiry all the respondents answered "Yes". In their elaboration of this response two respondents (out of six), have referred only to the methods below:[*]

(A) Personal contacts,

(B) GAFI's publications and feasibility studies programmes, and

(C) Seminars.

(6) Additionally, the official representatives of GAFI abroad were also asked to indicate the types of facilities and requirements should be granted (by GAFI's Cairo) to enable them to implement their activities effectively.

(*) One respondent was the Egyptian-British Chamber of Commerce in London.

The respondent indicated the following requirements and facilities (which obviously reflect the lack of co-ordination and communication between GAFI and its representatives abroad, and in consequence make it difficult for the latter to implement their activities abroad.

(A) More information about the Egyptian market (ie. publications and printed materials, and exchange of information. (B) Guidelines. (C) Quick decisions with regard to the investment proposals sent by them (i.e. GAFI's representatives) to GAFI's Cairo.

Finally, it has been reported earlier that one of the most persistent problems encountered by the BMNCs in Egypt is the limited forms of FDI permitted by the Egyptian government. In this regard, and taking into account the study assumption referred to, the executive managers of the BMNCs were asked to indicate the methods of entry (ie. the form of FDI) which have been adopted by their companies for entering into the Egyptian market and/or undertaking investment in Egypt. In response to this question the field research findings revealed that(*):

(A) 21% of the BMNCs surveyed entered into Egypt and/or undertook FDI there on the basis of a wholly-owned foreign subsidiary. These firms operate in the extractive industry (mainly oil exploration and oil producing companies).

(*) See table (12) in appendix (E).

(B) 31% of the firms surveyed entered into the Egyptian market through licensing agreement with a permanent branch office established in Egypt. The main types of activities of these firms are in manufacturing oil equipments, mechanical and electrical, beverages industries and consulting engineering activities.

(C) 27% of the firms undertake investment directly through joint ventures with local public enterprises such as civil engineering, aviation and housing.

(D) 21% of the firms entered into the Egyptian market for the first time through both indirect export and agency agreements <u>and then</u> established <u>joint venture</u> investment projects with local private partners. The main types of activities of these firms are manufacturing and exporting consumer goods and industrial materials.

Taking into account the earlier findings based on analysis of the BMNCs and those of the senior decision-makers of GAFI, it is evident that the most frequent forms permitted are joint venture, followed by licensing agreements i.e. it is evident that the forms of foreign investment permitted in Egypt are actually limited. This empirical evidence not only underlines the basic orientation of law no. 43 of 1974 (concerning the investment of foreign capital) but it also indicates that foreign firms probably prefer those forms of investment which provide more freedom and contorl over their foreign operations as well as profits.

Nevertheless for a host developing country like Egypt it is apparent that the more limited or the less diversified the forms of foreign investment in general, the smaller the number of foreign firms and the smaller the size of foreign capital invested and therefore, the more modest the contribution of fDI would be.(*)

(2) Weaknesses in organization and implementation of FDI policy in Egypt. The previous analysis of FDI policies and practices in some developing countries including Egypt has arguably underlined several areas of deficiencies and weaknesses in Egypt's policies and practices towards FDI. In view of the relationship between the impact of FDI and the weaknesses of Egypt's policies towards such investment it has been considered important to throw light upon the following points (taking into account the earlier assessment of FDI contributions together with the issues considered by the BMNCs operating in Egypt):-

(1) Technology transfer. According to the provision of law no. 43 of 1974 (Art. 2, para 1 to 7) technology to be transferred was deemed to mean both tangible and intangible assets. Tangible assets (e.g. machinery and equipment etc.) to be transferred to Egypt should be modern and have not been previously used unless the

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(*) More detail will be provided later. It may also be necessary to have a look at figure (A-2) for further illustration.

Board of Directors of GAFI grants an exemption from this condition. The critical factors here appear to be that the law contains nothing in terms of the age of tangible technology, its life expectancy, the types of industries to which it relates and whether the technology contributes to R & D, employment, exports, local skills, fees and royalties and so forth. The absence of such criteria may not only influence the potential contribution of FDI in Egypt, but it may also create confusion and ambiguities for the foreign investors concerned. The same issues also are applicable to intangible technolgies such as patents, trademarks and designs, technical assistance, know-how etc. which can be transferred by either highly skilled personnel or by means of agreements for the longer term, where, for instance, the life expectancy of the patent or trademark is short it is possible that the royalty/fees would be higher.

Additionally, no clear statement has been made about the distinction between labour-intensive and capital inteosive investment projects.

(2) Employment creation. In very broad terms, the law relating to investment proejcts must contribute to the creation of new job opportunities in Egpyt. Having considered the relationship between technology to be transferred and employment (mentioned in (1) above), the investment law also contains no conditions by which the investment project must create new jobs particularly in the case of

inland investment projects. With a high population growth rate, and large numbers of trained and educated people in a country like Egypt, employment creation is probably one of the most persistent and actue problems facing the government.

Thus the critical factor in this matter of employment appears to be the need to determine the proportion of the total workforce that should be recruited from Egyptian nationals as opposed to their foreign counterparts(*).

(3) Trade and balance of payments effects. Export-oriented projects, investment and commercial banks whose activities are confined to transaction carried out in free currencies, etc have been granted a special priority (Art 3, para 9 and exemption from Art. 4). According to the study survey there is no inland export-oriented projects established despite the special priority granted. Most of the projects established under the above article are investment and commercail banks. In this respect, the issues here seem to be: (A) no specific distinctions can be found between those projects involving export-oriented or import-substitution activities and those that are not,

(b) conditions concerning the extent of the contribution of these projects to export for example, do not exist e.g. percentages of production capacity that will or should be exported by each project annually, (c) types of incentives

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(*) This condition already exists in the field of free zones investment by the provision of Art 101 of law 43/1974.

or the type of special priorities that will be granted are not clearly pointed out in the relevant law and (d) banks that have been given special priority (tax concessions and exemptions from the conditions of local partnership) can be established depending on the reputation of their parent organizations and/or their deposits in foreign countries. Thus, it is possible in the absence of a specific size of capital to be brought in (as a condition for granting the approval of investment proposal) the investment will be too small.

(4) The selection of approved investment projects. As demonstrated earlier about 68% of the investment projects approved from 1974 to 1983 are non-industrial. This in turn may rather commercialise the economy than build up its industrial base. The considerations in this regard appear to lie in e.g. the mechanisms or instrumetns used to attract and select the incoming new investment projects or proposals, the absence of conditions governing the choice of technologies referred to earlier, the direction of projects to a particular sector,etc. These areas of questions are applicable also in the case of the free zones investment where most of the projects established so far are in the field of warehousing/storages.

(5) The relevance of investment incentives and privileges offered and conditions imposed. It has been illustrated earlier that not all types of incentives offered tend to

play a substantial role in relation to FDI decision. In the case of BMNCs operating in Egypt, it is evideat that most of the firms surveyed are concerned primarily with e.g. better labour conditions, favourable terms for repatriating profits, capital and trade. With this finding in mind, together with the previous outlined issues as well as the experience of other developing countries, the analysis of the current structure of incentives and privileges granted by the provision of law 43 reveals numerous critical and inter-related points or issues which probably influenced the contribution of FDI in Egypt. Some of these issues can be pointed out briefly as follows:

(A) The distinction between incentives, privileges and conditions etc. applying to all investment projects and those applying only to specific projects (according for instance to the economic sector or the nature of activities involved) is not clear or does not even exist in all cases except housing projects and banks of all types. In this connection, some other related points must be outlined:

First:exemption from local participation in establishing housing projects which is offered only to Arab investors. At the same time foreign capital may not undertake housing projects even in participation with Egyptian capital. Such exemption combined with the prohition of foreign capital from investing in housing projects may considerably influence the objective of developing that sector which is considered as one of the most important objective of the economic and social development.

Second: In practice, both Arab and foreign investors are foreigners. The difference between the former and the latter is only in the native language. Thus, discrimination between the two types of investors is based on no practical, or even ideological logic, particularly since foreign capital - by the provisions of the same law - can be exempted from the local partnership conditions in some other projects (e.g. investment banks) as has been stated earlier (see the excpetions from ARt. 4).

Third: The law has delegated to the GAFI's Board of Directors the power to grant an exemption from the national partnership conditions in any investment field regardless of the nationality of the investors. This situation poses some questions for considerations, e.g. even wholly-owned subsidiaries may be considered under "exceptional circumstances".(*)

(*) See following page.

Why then have these circumstances been left undetermined leaving room for ambiguity ? On the basis of what criteria will this exemption be granted ? In order of importance what are the differences between an industrialized project (which may not generally be exempted from for example local participation) and an investment bank which in some cases can be exempted ?

Given the realities of the business world, the above issues may illustrate ambiguities of the rules and the possible conflicts between the national objectives and the methods adopted to achieve them particularly under undetermined conditions and the absence of some objective criteria. The exemption from national partnership, as well as the discrimination between those projects which have been given special priorities (as defined by the provisions of the alw, or left to the Authority's decisions) and those projects which have not enjoyed these privileges, have resulted in imbalance in terms of the distribution of investment projects. This imbalance by no means influences the national objectives particularly those objectives related to industrialisation of the Egyptian economy and social welfare as previously outlised.

Fourth: Although the government announed in December 1983 that licenses regarding warehousing in the Free Zones will no longer be issues as before, the intention being to eliminate them the dominance of such projects remains unaltered.

(B) The law contains no reference to the permanent measures, concerning e.g. exports, imports, taxes, etc. and other types of fiscal and non-fiscal measures imposed and those of a temporary nature in relation to each type of investment project approved.

(C) Related to (a) and (b), there is also no distinction between the incentives, measures, etc. of immediate impact required to be achieved (e.g. reducing the costs of investment projects or accelerating the implementation of the projects and so forth).

(D) Except for housing projects and banks (commercial and investment) most if not all the fields of application of incentives and privileges, etc. are not unequivocally defined. As illustrated earlier, some developing countries such as Mexico, Israel, Jordan,e tc. employ a variety of incentive instruments often related to a vareity of objectives. Some countries awarded incentives for regional development others for export-oriented projects, etc. In the case of Egypt, the maldistribution of investment projects by e.g. geographic regions, nature of activities, etc. is evidence of the deficiencies of Egypt's incentives programmes or policies in terms of the field of application of incentives. The conflict here seems to be between the objectives Egypt requires FDI to meet and the ability to achieve such objectives under the present structure of incentives offered.

(E) Disincentives are evident in the new measures announced by the government in 1981. Law no. 159 of 1981 which has been considered as a new instrument for further encouragement to FDI is actually discouraging. It is concerned primarily with national local investors rather than encouraging foreign investors, For example:

- Repatriation of captial as well as profits is not acceptable by the provision of law 159/1981.
- Shares are not subject to any negotiation before publishing two balance sheets covering two years. In the meantime 49% of the invested capital should be offered to Egyptian subjects.
- The majority of members of a board of directors should be Egyptians. Furthermore, staff salaries are limited to a maximum to be decided by the government of Egypt.
- There is no exemption from most of the labour laws' provisions applied locally.
- All companies established under law no. 159/1981 are subjected to exchange control,curbs and measures, and exports - imports regulations etc.
- No tax exemptions from the general customs are normally permitted. Moreover, any exemption is subject to the approval of GAFI.

Undoubtedly foreign investors are free to choose and decide what is appropriate and acceptable for their best interests. But from the foreign investor's point of view, law no. 159/81 is considerably restrictive for those investors who are seeking more freedom in their operations and more incentives to invest in Egypt. i.e. the Egyptian government, instead of providing more freedom, has introduced severe measures(by means of law no. 43 of 1974,& 159/81 creating problems that have been illustrated earlier) .

(F) The absence of criteria for approval, pre-conditions and performance requirements. It has been mentioend earlier that some developing countries apply performance requirements side by side with the incentives offered in order to control the operation of foreign firms and direct FDI in general toward desirable economic activities. Despite the possible discouragement for the potential investors as a result of such practices, it must be noted that the application of systems of this kind may help in obtaining several desirable benefits from FDI or at least estimating many potential adverse effects ofsuch investment.

Broadly speaking, the absence of criteria for approving investment projects, pre-conditions and performance requirements which should be associated with both granting incentives, privileges and investment approvals, is evidnet in law no.43 of 1974. Taking into account the previous analysis of FDI impact in Egypt together with the preceding outlined points, the existing issues in the currently undertaken incentives policies or programmes in Egypt relative to the desirable impact of FDI appear to be:

- Regional development requirements are not attached to the incentives offered.
- Requirements related to trade (export and imports)

are absent in most cases. There is no distinction between, for example, an investment project which uses local resources or domestic inputs a project which relies on imports; or between projects which are export oriented and others which are import-substitution oriented, etc. This is in addition to the absence of some types of incentives needed to encourage such projects.

- The absence of employment requirements for all types of investment incentives applies to inland projects i.e. projects which may create a very limited number of jobs opportunities are eligible for the same types of incentives as are offered to those projects which may create a satisfactory number of jobs. Additionally, no foreign firm is required to engage or employ a certain number of local managers and workers in order to be eligible for any specific type of incentive. Furthermore, there are no specific or even general requirements concerning training of the labour force.
- Requirements relating to the flow of foreign capital are not stated clearly in the incentives programmes. All types of incentives can be granted quite apart from the amount of capital brought in. Even in the case of re-invested profits or capital expansion, the incentives attached to them are disappointing (there is also no clear distinction between projects with large foreign exchange inputs and those heavily

financed from local finance).

- Technology transfer requirements are also not related to the incentives granted, e.g. there is no difference between investment projects with a high technology content or which will undertake R & D locally, etc. and those of a lower technology content.
- Commercial and services-oreinted investment projects are eligible for the same incentives (and sometimes will be granted extra incentives) offered to the industrial/manufacturing oreinted projects.

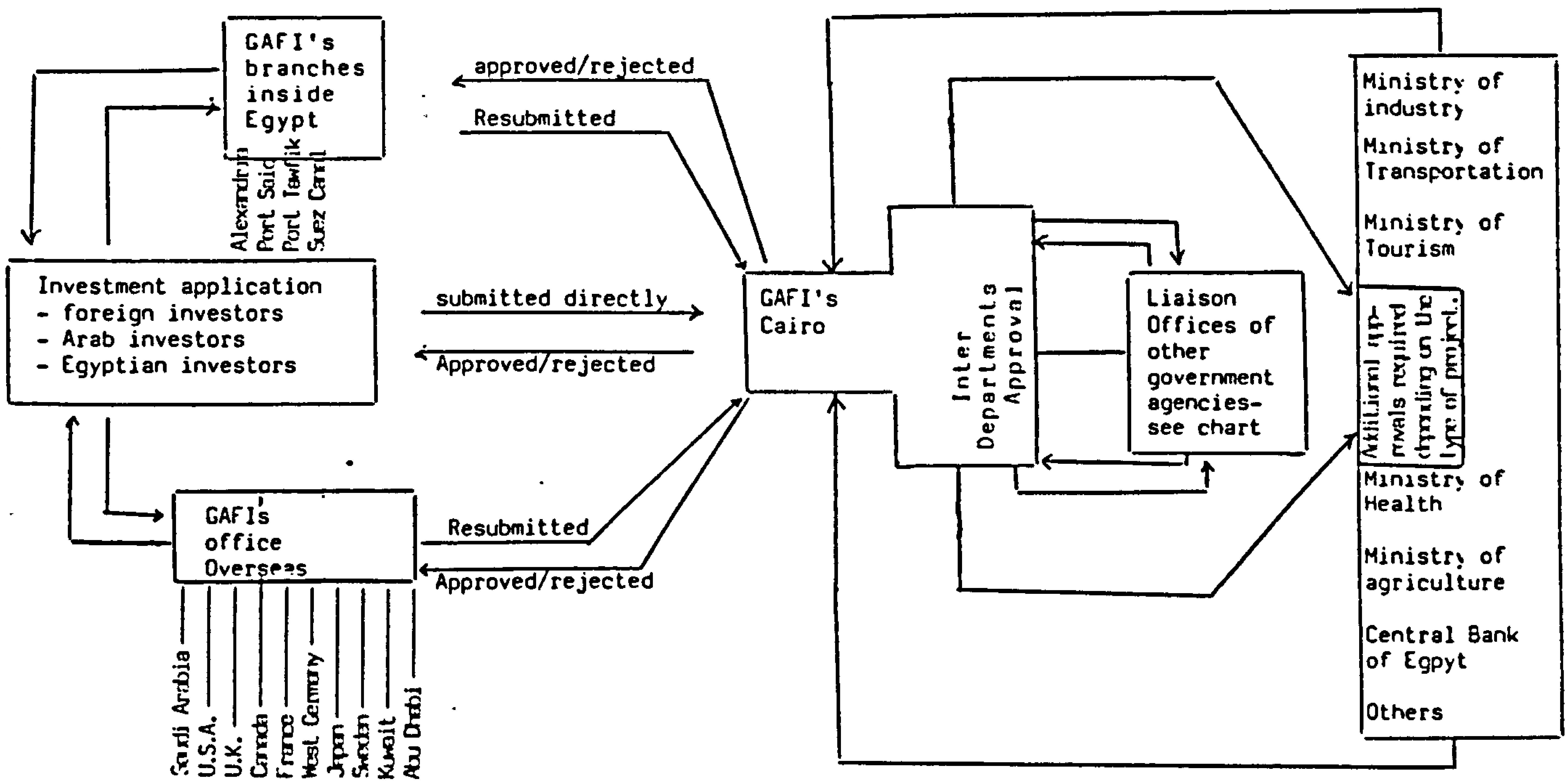
In short, most -if not all - incentives programmes employed by Egypt to attract FDI do not fit in with the expected contribution desired from such investment. Ambiguities, lack of performance requirements etc. are evident in Egpyt's policies incentives programmes. Although the impact of the above pre-conditions or performance requirements have an effect on investment decisions by the foreign firms concenred, it is probably important that such conditiosn and requirements need consideration by the Egyptian government in the light of both the current performance of FDI and the potential contribution of such investment.

(6) Bureaucratic delays/the overlapping system.

Bureaucracy has been considered by the BMNCs surveyed as one of the most outstanding problems affecting their activities in Egypt. In connection with FDI it is probably useful to outline in general terms the reasons which may underlie such problems as follows:

(a) The dispersion of procedures and arrangements concerning investment approval among various government agencies and ministries including GAFI and its official representatives abroad and in Egypt. Figure (C-1) and the following figure (E-1) provide evidence of this.

Figure (E-1) Elaboration of the circular process of investment proposals approvals: the current situation.



Source: Constructed by the researcher on the basis of interviews conducted with the leading official of GAFI during the course of the field research.

(b) Despite the fact that GAFI maintain four official offices outside Cairo and others in ten foreign countries, the final decision with regard to granting the investment approval is the sole responsibility of GAFI. i.e. there is a high degree of centralisation of investment decisions.

(c) The limitations of the official representatives of GAFI both at home and abroad in terms of both the technical capabilities required for assessing investment proposals and the power even to grant a pre-approval on any investment projects.

(d) The ambiguities that exist in law 43 of 1974 as illustrated earlier.

(7) The responsibilities of GAFI - the need for rationalization. The preceding analysis of the functions of GAFI and its organizational structure (see chart C-4), together with the field study findings reveals several gaps, e.g.:-

(a) The absence of specific functions such as post-approved follow-up necessary to ensure that the approved investment projects are undertaken according to terms or conditions approved, or to overcome any obstacles facing the implementation of the projects, etc; and the absence of the functions concerning screening technology contracts or the types of technologies to be brought in. The organisational bodies required for implementing such functions do not appear in the organisational chart of GAFI or in the law that created GAFI (see Chapter 3 in Section C).

(b) The absence of effective promotional programmes (other than the incentives referred to) to reach foreign investors and to sell investment opportunities. (see also the field research findings outlined earlier) except for a few international conferences and ministerial meetings in Cairo with fôreign investors. In addition to a very limited number of publications distirbuted locally (ignoring publications prepared by international bodies and professional agencies outside Egypt).

(c) There are no specific functions, responsibilities, etc. assigned to the official representatives of GAFI abraod, or its four branches inside Egypt.

(d) In 1983, the Investment Authority realized the importance of activity promoting investments by approaching investors, rather than leaving it to investors to make an approach to the Authority. Thus over two hundred or so investment projects have been prepared and are now available to any investor. But from an analysis undertaken of 21 projects (as a random sample) two major points emerge: firstly, each project should be linked with the conditions and privileges enjoyed by an incoming investor who wishes to invest in a certain project i.e. the conditions impsoed and privileges granted should obviously be mentioned. Secondly, some important information is not always provided for every project, e.g. the site of the proposed project, financial data, the local or foreign partner and marketing information particularly in terms of the agro-indsutrial projects.

(8) Foreign investment policies - the absence of other forms. It is evident from the field research findings and the analysis of foreign investment policies in general (as demonstrated in figure A-2 and Chapter 3 in Section C) that investment forms permitted by Egypt are very limited. Taking into account the proposition that a foreign investor needs to choose that form of investment which conforms to its own objectives, and the relationship between the need to attract more foreign investment (including its potential contribution) and the forms available in a given country, it could be argued that the present forms of investment permitted by Egypt are not diversified enough to serve national objectives by means of foreign investment in general.

Based on the foregoing analysis, it could be argued that "Investment Myopia" is evident in many aspects of Egypt's policies and practices towards FDI. Available forms of investment provide limited alternatives for foreign investors to choose from. Directing foreign investment towards projects in selected economic sectors probably does not correspond with what the national economy or the market actually need. Contradiction and ambiguities exist in the law governing investment processes and there is not an adequate promotion "mix" for selling or marketing Egypt abroad, etc. Broadly speaking, the preceding analysis appears to support the study hypotheses referred to.

3.2 Requirements for policy change

In the light of the previous analysis, it is apparent that the existing gaps in FDI policies have affected the contributions of such investment to the general progress of Egypt. Given the importance of closing these gaps, the following is an analysis of the field research findings concenring types of developmental courses of action that should arguably be considered by the government of Egypt in order to enhance the positive impact of FDI:

(1) Proposed Pre-conditions

In respect of the practices and activities of foreign firms. In this connection, the academic staff were asked to indicate their degree of agreement relating to some types of pre-condtions (and/or policies) proposed to provide some measure of control over the operations, practices, etc. of foreign firms in Egypt. Accordingly, the study findings are contained in table (E-37). From this table, it is apparent that the academic staff by and large expressed considerable agreement about almost all the suggested requirements under consideration.

Table (E-37) Proposed pre-conditions concerning the activities and practices of foreign firms.

(N=49)

Require all foreign firms to:	Strongly Agree		Agree		Uncertain		Disagree		Strongly Disagree	
	No.	%	No	%	No.	%	No.	%	No.	%
Export a specified percentage of production to sustain the balance of payments	32	66	10	20	6	12	0	0	1	2
Spend a certain percentage of their annual income in the areas of training, R & D,etc.	34	69	13	27	2	4	0	0	0	0
Prohibit wage differentials between nationals and foreign workforce	14	29	14	29	11	22	3	6	7	14
Provide a certain percentage of local nationals at every level	22	45	19	39	7	14	1	2	0	0
Limit amount of annual profits,salaries etc. repatriated (to their home)	14	29	27	55	5	10	3	6	0	0
Re-invest a certain percentage of annual profits in Egypt	40	82	6	12	2	4	1	2	0	0
Provide up-to-date technological level.	28	57	15	31	5	10	0	0	1	2
Limit exports of products which are urgently required by the Egyptian economy.	25	51	20	41	3	6	1	2	0	0
Purchase equipment, raw materials parts, etc. from local suppliers where available.	27	55	16	33	6	12	0	0	0	0
Assist local entrepreneurs by incresaing their share in the investment venture.	18	37	24	49	6	12	0	0	1	2
Get the location right and produce products that respond to local needs.	22	45	21	43	4	8	1	2	1	2
Respect national legislation, regulations, etc.	34	69	13	27	2	4	0	0	0	0
Others	1	2	-	-	-	-	-	-	-	-

In order to obtain an overall comparison of the relative importance of the proposed actions or policies examined, weighted scores are given to each type. In this regard, each time a certain type of suggested pre-condition (and/ or policies) received a "strongly agree" response by a respondent, it was multiplied by 5, "agree" was multiplied by 4 and so on. Table (E-38) therefore shows weighted score and rank in order of importance of each type of pre-conditions of performance-oriented policies examiend. Based on this table, the most frequent or important new requirements arguably

Table (E-38) Weighted scores and ranks of the pre-conditions and/or performance oriented policies.

	Weighted Scores	Rank by importance
- Export a specified percentage of production to sustain the balance of payments.	219	4
- Spend a certain percentage of their annual income in the areas of training, R & D, etc.	228	2.5
- Prohibit wage differentials between nationals and foreign workforce.	171	12
- Provide a certain percentage of local nationals at every level.	209	8.5
- Limit amount of annual profits, salaries, etc. repatriated to their home.	199	11
- Re-invest a certain percentage of annual profits in Egypt.	232	1
- Provide up-to-date technological level	216	6.5
- Limit exports of products which are urgently required by the Egpytian economy.	216	6.5
- Purchase equipment, raw materials, parts, etc. from local suppliers as available.	217	5
- Assist local entrepreneurs by increasing their share in the investment venture.	205	10
- Get the location right and produce products that respond to local needs.	209	8.5
- Respect national legislation, regulations, etc.	228	2.5
- Others	5	13

appear to be in terms of requiring all foreign firms to:

(A) Re-invest a certain percentage of annual profits.

(B) Respect national legislations, regulations, etc.

(C) Spend a certain percentage of their annual income in the areas of training, R & D, etc.

(D) Export a specified percentage of production to sustain the balance of payments.

(E) Provide up-to-date technological level .

(F) Purchase equipment, raw material, parts, etc. from local supplier when available.

(G) Limit exports of products which are urgently required by the economy.

(2) <u>Policies and organizational requirements in relation to FDI</u>

Respondents (academic staff) were required to indicate their degree of agreement regarding some proposed requirements to be considered by the government. Table (E-39) illustrates the realised findings in this respect. Based on this table it is clear that the overwhelming majority of the academic staff agree about the suggested requirements for new policy changes. In general, one can consider the following types of new changes required as of great importance relative to Egypt's policy reform taking into account the preceding analysis in this connection:-

(A) Eliminate as much as possible any bureaucratic and non-productive procedures.

(B) Provide clear rules and comprehensive information to foreign investors.

Table (E-39) Requirements for policy and organisation chagnes.

(N 49)

Require our government to:	Strongly Agree		Agree		Uncertain		Disagree		Strongly Disagree		Weighted Scores (*)	Rank by Import.
	No.	%	No.	%	No.	%	No.	%	No.	%		
Allow foreign investors to enter into the heavy & strategic industries	21	43	10	20	9	18	8	16	1	2	189	(1)
Allow 100% ownership of foreign subsidary	15	21	9	18	6	12	15	31	4	8	163	(12)
Diversify the policies of foreign investment (i.e. permit other forms apart from joint ventures).	13	27	29	59	3	6	4	8	-	0	198	(10)
Establish technical units to screen the levle and types of technology brought in by foreign firms	18	37	27	55	4	8	-	0	-	0	210	(9)
Direct foreign investors into the desirable economic sectors and reserve certain industries for its own monopolies or for local investors.	28	57	18	37	-	0	1	2	2	4	216	(7)
Eliminate as much as possible any bureaucratic and non-productive procedures	38	78	10	20	1	2	-	0	-	0	233	(1)
Establish an Investment Review Board and Pilot Units to follow-up the project after approval.	30	61	16	33	3	6	-	0	-	0	223	(4)
Require foreign firms to use the local resources and national dendowments.	23	47	26	53	-	0	-		-	0	219	(6)
Study investment proposals and attempt to predict their potĕntial impact on the balance of payments in the light of objective criteria (e.g. % use of potential exprots or imports substitution, % of local borrowing vs. the external, etc.)	32	65	15	31	2	4	-	0	-	0	226	(3)
Publicize investment opportunities abroad	20	41	24	49	5	10	-	0	-	0	211	(8)
Provide clear rules and comprehensive information to the foreign investors	35	71	13	27	1	2	-	0	-	0	230	(2)
Link and differentiate the incentives privileges,e tc. that shall be granted to the foreign investors on the basis of e.g. type of investment projects, geographic areas, capital inflow vs capital outflow, etc.	27	55	20	41	2	4	-	0	-	0	221	(5)
Others	1	2	-	-	-	-	-	-	-	-	5	(13)

(*) Calculated as described earlier.

(C) Study investment proposals and attempt to predict their potential impact on the balance of payments in the light of objective criteria (e.g. percentage use of potential exports or imports substitution, percentages of local as opposed to external borrowing, etc.).

(D) Establish an Investment Review Board and Pilot Units to follow up projects after approval.

(E) Link and differentiate the incentives, privileges, etc. that will be granted to foreign investors on the basis of e.g. types of investment projects, geographic areas, capital inflows versus capital outflow, etc. (This is in addition to the pre-conditions suggested which can be used as a performance-oriented policies. i.e. to grant some types of incentives to the actual contribution of investment projects).

(F) Require foreign firms to use local resources and national endowments.

(G) Direct foreign investors into appropriate economic sectors and reserve certain industries for its own (i.e. the goverment's) monopolies or for local investors.

In an attempt to examine how significant the relationship is between both groups of requirements of policy change shown in tables (E-38) and (E-39), two statistical techniques have been undertaken i.e. "r_s" and ANOV analysis. Using the ranks that appear in the above mentioned tables, the observed value of "r_s" was found equal to 0.53. This value is significant at .05 level of significance. According to the observed value of "F" that appears in table (E-40) below, compared with its critical value, it is clear that no significant differences exist between the means of the weighted scores assigned to each type of requirement examined. The findings here may suggest that

Table (E-40) An ANOV Summary.

Source of Variation	SS	df	MS	F
Between groups	3.84	1	3.84	.0011*
Within groups	86396.1	24	3599.8	
Total	86399.94	25		

*F critical value = 7.82 at .01 level of significance and 1 and 24 degrees of freedom.

a strong relationship exists between the requirements proposed for changes in the Egyptian polciy towards FDI, the importance of these courses of developmental action is also evident in table (E-40) despite the differences that exist in the orders of importance (i.e. primacy) that appear in tables (E-38) and (E-39). In other words, no significant differences exist in the opinion of the respondents regarding the importance of the proposed requirements for policy changes.

(3) Policies and requirements regarding the state-owned enterprises

In order to eliminate the adverse impact of FDI and to enable the public companies to react to or cope with possible competition, the executive managers of these companies were required to indicate agreement concerning the importance of some policies to be undertaken by the government. The findings of this study are accordingly included in table (E-41).(*) Probably the key columns in table (E-41) on the following page are nos (4) and (5). From column no. 4 it is clear that the executive managers by and large appreciate the suggested new policy changes which may enable their companies to cope with the competition potential and negative influence resulting from FDI/or the presence of foreign firms in Egypt. On the basisof column no. (5) one may suggest the folloiwng requirements for policy changes as of the most importance to the state-owned enterprises for the purpose of reacting to the adverse impact attributed to FDI:

(A) Foreign investment should be allowed to enter into industries/activities that provide intermediate goods, material, services, etc. which are not available locally.

(B) More efforts in the area of R & D will enable the state-owned enterprises to be more competitive versus the foreign firms.

(C) Foreign investment should be allowed to enter into industries/activities characterized by capital and technological intensity in which the state-owned firms have no competitive advantage or ability for involvement.

(*) See following page.

Table (E-41) Policies required to enable the state-owned enterprises to cope with the competition potential and adverse impact attributed to FDI/foreign firms activities in Egypt.

(N=30 firms)

	Degrees of importance in which a suggestion was cited: Very Import.	Fairly Import.	Of some Import.	Of no Import.	Total Responses out of 30 (2)	Possible no. of responses in which the response was not made (3)	Weighted Scores (*) (4)	Rank by Importance (5)
	Number of Cases							
1) Providing the state owned enterprises with the same privileges incentives, etc. that have been granted to the foreign firms	18	1	-	11	30	-	86	(8)
2) More freedom from bureaucratic procedures and governmental measures	21	5	2	2	30	-	105	(6)
3) Merging the state-owned enterprises into joint ventures with foreign firsm	1	-	5	24	30	-	38	(12)
4) More freedom regarding shaping hte employment policies, pricing policies, re-investing the profits, purchasing, product policies, etc.	21	6	1	2	30	-	106	(5)
5) Commercialisation of all state-owned enterprises particularly those that relate to consumer goods.	22	5	1	-	30	-	108	(4)
6) More efforts in the areas of R & D will enable the state-owned enterprises to be more competitive versus the foreign firms	24	5	1	-	30	-	113	(2)
7) The state-owned enterprises should be limited only to heavy industries which have more importance to the economy.	3	2	3	22	30	-	46	(11)
8) Providing export opportunities.	17	9	2	2	30	-	101	(7)
9) Providing more freedom from import measures.	16	8	1	4	29	1	64	(9)
10) Foreign investment should be allowed to enter into industries/activities that provide intermediate goods, material, services, etc. (to the state-owned firms) which are not available locally.	26	3	1	-	30	-	115	(1)
11) Foreign investment should be allowed to enter into industries/activities that have no potential competition with the state-owned enterprises.	5	1	2	22	30	-	49	(10)
12) Foreign investment should be allowed to enter into industries/activities that are characterized by capital and technological intensity in which the state-owned firms have no competitive advantages or ability for involvement.	24	3	2	1	30	-	110	(3)
Total Responses	198	48	22	91	359	-	-	-

(*) Computed as follows: the four points nominal scale has been weighted by numbers ranged from 4 to 1, then each time a certain type of policy change has been considered as "very important" it was multiplied by 4, as of fairly important it was multiplied by 3 and so on.

(d) Commercialisation of all state-owned enterprsies particularly those that relate to consumer goods.

(e) More freedom regarding shaping the employment, pricing, reinvesting profits, purchasing and product policies.

(f) More freedom from bureaucratic procedures and governmental measures.

It is perhaps interesting to note that the Executive managers interviewed seem to have some doubts concerning the importance of providing their companies with the same incentives and privileges granted or being offered to the existing foreign firms in Egypt. By contrast, the Egyptian academic staff when asked to indicate their agreement on the same propsotion, they overwhelmingly (84%) agreed that the government should provide the public firms with the same incentives which have been granted to their foreign counterparts. Taking into account the preceding analysis of FDI impact (for instance, the issue relates to the possible displacement of indigenous firms) the situation is probably disputable. In very broad terms, the critical views relating to the impact of FDI may support the academic staff point of view. On the other hand, from the effectiveness point of view the executive manager's responses tend to some extent to conform to the competition between foreign and indigenous firms. At the same time, it could be argued to some extent that previously-analysed findings concerning the problems, conflicts, etc. experienced by the public companies as a result of FDI in general may lead one to agree with the academic staff point of view. Yet, it is probably helpful to compare the above finding in general with those realised in Chapter (2).

Finally, an attempt is made to examine the attitudes of the Egyptian academic staff towards the establishment of a wholly-owned foreign subsidiaries in Egypt. About 61% of the respondents agree that the form of foreign presence i.e. whether as a joint venture, wholly-owned subsidiary, by licensing or consultancy is as significant a factor as the size of the investment. The Egyptian government should allow foreign investors to establish a wholly-owned subsidiary provided it has already admitted foreign investment whether in a form of joint venture or licensing, etc. Moreover, in an enquiry relating to dependence of FDI impact on the government's direction and control of foreign firms activities, 88% of the academic staff agreed about this relationship. Taking all these points into account together with the previous analysed findings, it is apparent that the study hypotheses (nos. 5 and 6) referred to are supported in general.

3.3 Concluding Remarks

In view of the study hypotheses (no. 5 and 6), it is clear that the above analysis provides evidence to confirm the hypotheses referred to. Several gaps, lack of sophisticated experience, ambiguities, etc. are evident in Egypt's investment policies, GAFI practices and organization, implementation of FDI policies and so forth.

In short, according to the present attempt, it is possible that one can detect the following main points (taking into consideration the realised findings in Chapters 1 and 2):-

1) The contribution of FDI to Egypt's development has been adversely influenced by factors such as: (a) the forms of FDI whcih are currently permitted by the Egyptian government. These forms are not diversified and accompanied by the willingness required to realise fully the objectives aimed at through FDI. (b) Inadequate, inefficient, etc. practices and administrative procedures' and regulations in relation to approving FDI proposals, (c) lack of co-ordination between GAFI and its official representatives abroad in addition to the little commitment of the latter. (d) The absence of many criteria for approving FDI proposals as well as the inadequate incentives programmes including the basis/conditions upon which the types of incentives offered. (e) Ineffective promotion policies, (f) the absnece of organizational bodies to screen and choose the level and types of technology will be transferred, this is in addition to following up the implementation of FDI projects approved, as well as monitoring the potential effects of such projects in the light of the national objectives aimed at through FDI in areas such as transfer resource effects, employment, trade and balance of payment, regional development, etc.

(2) The present situation of FDI in Egypt as described earlier taking into account the previously-outliend gaps has indicated that the need for a change in policy and

investment cliamte in general is indisputable. Requirements for policy change for enhancing the positive impact of FDI are therefore multifold e.g. FDI forms in Egypt should be diversified, pre-conditions and performance requirements must be imposed to control and direct the activities of foreign firms, unproductive administrative procedures should be removed, providing clear rules and comprehensive information to foreign companies/investors are of great importance, restructuring the government-business relationships is also indisputable i.e. government interference in business affairs should be eliminated.

Finally, with the realised findings concerning the examination of the requirements for policy change in mind, it could be argued in general that new approaches in relation to FDI in Egypt is required if there is to be an improvement of such investment's contributions. Thus, the next Section is devoted to provide further proposals regarding new policy approaches in relation to FDI in Egypt.

Section (F)

CONCLUSION: NEW POLICY APPROACHES

Main Points of Section (F)

- The prime objective of this section is to throw light upon new policy approaches that can enhance the contribution of FDI to overall development in Egypt. More specifically , it is concerned primarily with proposing new policies (forms and practices,etc.) in relation to FDI in Egypt. These policies are based on the basis of the study findings, the literature review and the preceding analysis of the Egyptian economy (i.e. Egypt-specifics) and the current status of FDI etc.

CONCLUSION: NEW POLICY APPROACHES

Introduction:

As demonstrated earlier, a great variety of policies which may have an influence on the inflow of FDI, including the activities of MNCs, can be adopted by a developing host country. At the same time, it could be argued that there are specific types of policies which may be of significant importance relative to FDI in general. Among these are FDI's forms permitted,policies aiming at attracting specific types of investment or achieving greater vertical/horizontal integration and linkages of FDI with the national economy and other policies aimed at controlling the activities of MNCs i.e. performance-oriented policies, etc.

Despite the abundance of types of policies available in relation to FDI and their viability in terms of the national interests (specific or general) of a given host country, it is not possible for one to ignore the costs of each policy. i.e. the net effect of any adopted policy on either the inflow of FDI or other national objectives require to be fully understood. Meanwhile, it may be a risky proposition to assume for instance, that because one form of FDI e.g. joint venture produces some valuable gains, when geared to a particular developing country, the same form is necessarily appropriate to another country. Different host countries have different characteristics, objectives, etc. even for the most conventional inputs of FDI, so that such countries might make different assessments of the importance of such investment relative to their national objectives.

Yet the history of business provides some examples of success achieved in some developing countries e.g. Mexico, Hong Kong, Brazil, etc. which have responded to the impact of FDI by means of developing or adopting policies and practices such as regional-development oriented policies, controlling transfer resources required for local development, establishing central bodies to screen technologies brought in - all based on the benefits desired from FDI, etc.

In the case of Egypt, unlike some developing countries, it has been demonstrated that in spite of the large and rapidly growing market size (at present and potential), large natural resource endowments, the wide array of incentives offered, hospitable attitudes and so forth, the contribution of FDI appears to be very disappointing. The modest performance of such investment is therefore a major cause for concern. Empirical evidence derived from the present study generally suggests that the poor performance of FDI can be explained by a combination of factors such as:- (1) Insufficient diversified FDI forms and a generally short-sighted approach to this type of investment, (2) ineffective administration and practices associated with FDI, (3) inadequate infrastructure facilities, marketing institutions and lack of information centres), (4)ineffective mixture of measures imposed and inappropriate incentives offered, etc. These are major problems which help to explain why Egypt is not yet able to negotiate for FDI from a postion of strength, in order to attract and benefit from an increase of such investment.

Generally speaking, given the above deficiencies together with the anticipated growing competition from other developing countries for FDI, it is not possible to state too strongly that Egypt without better and more diversified forms of FDI (i.e. better entry systems for foreign firms), better general administrative systems and practices, etc. will be able to attract the desired amount of FDI depending only on the hospitable overall economic and political climate it enjoys including the market offering referred to. Whatever, the options of the government may have been, it is clear - from the previous analysis and findings of the current research - that FDI policies and related regulations,etc can have substantial repercussions or influence for such investment and the activities, future, etc. of foreign firms operating in Egypt.

As far as the current section is concerned, it has been considered useful to present proposed approaches for new policy changes towards FDI in Egypt. These approaches have been suggested taking into account considerations such as:- (1) the worsening economic and social conditions prior to 1974 which forced Egypt to open the door to FDI, i.e. the need for FDI was considered as urgent, (2) It is therefore possible that Egpyt should develop coherent objectives in its dealings with foreign firms or FDI in general, ie. by quantifying the pros and cons of FDI, (3) As appropriate policies related to FDI are the means by which specific ends can be achieved, namely to realise desired objectives, such policies must take costs and benefits into account (4) the adoption of new policies, providing relatively generous incentives offering a promising market or resources - none of these by themselves are sufficient inducements to attract FDI in Egypt. (5) the government cannot expect FDI and/or foreign firms to provide effectively all the types of benefits required from such investment; nor is it realistic to expect FDI to provide benefits without reference to costs, (6) FDI is not the only means of providing technological development, employment benefits, capital, etc. (7) the economic, political and cultural advantages of Egypt should be compared with those other Middle Eastern countries, (8) the distinction between equity and non-equity forms of foreign investments will be ignored ie. FDI forms here involve all types of foreign investment whether or not foreign firms gain some degree of access to and control over the value created by the investment project whole, majority or minority ownership of the investment project. (9) The current study findings as a whole and particularly those related to considerations such as:

A. The general attitudes towards FDI (expressed by executive managers, intellectuals, GAFI official, etc), foreign ownership of investment projects, etc.

B. The comments made or the attitudes expressed by the executive managers of the BMNCs studied related to Egypt in respect of market and location potential.

C. Opinions regarding the importance of diversifying the forms of FDI in Egypt including the practices associated with each form and the ability of the government to direct and control FDI and foreign firms' activities in Egypt.

D. The differences between Arabic speaking investors and their non-Arabic speaking counterparts are not significant in the real world. Also, given the realities of the business world, the form adopted, ie. whether as a joint venture, wholly-owned subsidiary, licensing or consultancy, is as significant a factor as the size of the investment. Thus, the Egyptian government could allow foreign investors to establish a wholly-owned subsidiaries provided they have already been accepted as foreign investors whether in the form of joint venture or licensing and so forth.

E. Success or lack of it relative to FDI impact is dependent on removing the environmental obstacles referred to.

F. The previously examined requirements for policy changes (especially those of tables E-37 and E-39 and E-41).

Taking the above considerations into account and allowing for the impracticability of dealing in the present study with the complex interactions of general determinants which have relevance to the proposed policy changes but would be more appropriately discussed within the wider framework of a more comprehensive series of researches, the following is an attempt to present basic requirements -

oriented approaches for policy changes in order to develop and enhance the contributions of FDI in Egypt. These approaches can be put forward under four major headings as follows:

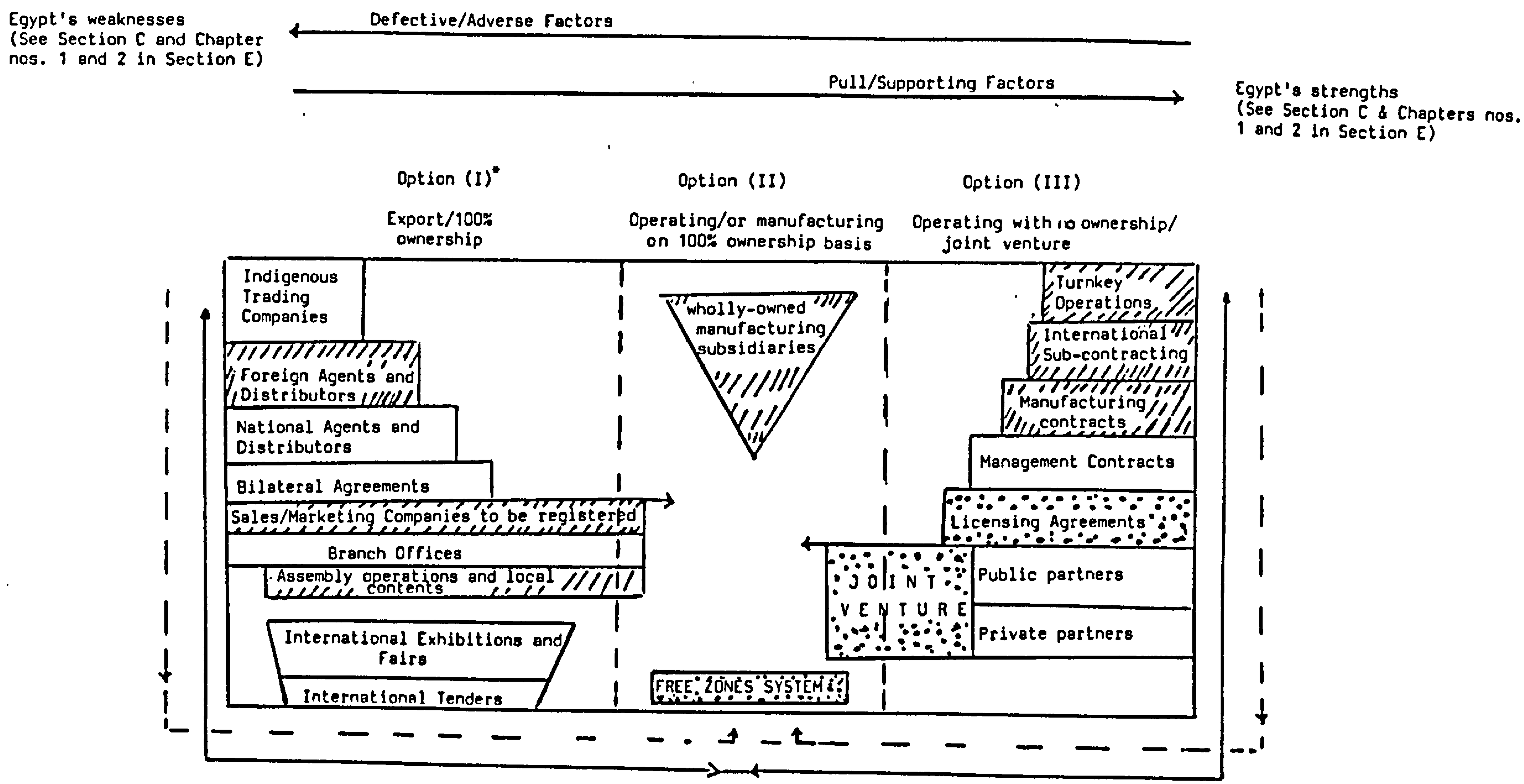
(1) Policies aiming at greater provision of opportunities for foreign firms to enter into Egypt (Diversification of forms of foreign investment)

Because the extent of FDI's inflow into a given market depends partly on the forms of FDI permitted, it has been considered important for Egypt to diversify or adopt new forms apart from the existing ones. Figure (F-1) shows the proposed forms that can be introduced, taking into account the following broad considerations if the government is to adopt the suggested new forms for such investment, e.g.:-

(1) If Egypt still insists on the joint ventures investment policy even with local majority ownership , or licensing agreements, it will probably receive less foreign capital inflows, fewer training programmes, small size of foreign investment, small numbers of foreign firms, etc.

(2) If Egypt ignores forms of foreign investment such as the "International sub-contracting", "manufacturing contracts", etc., it will perhaps lose the opportunity of exploiting its superiroity or comparative advantages in some industrial fields e.g. textile and food industries where Egypt tends to have an abundance in quality and quantity of the raw material of these industries.

Figure (F-1) New forms of FDI/new methods for entry into the Egyptian Market (+)



(+) One may need to look at figure A-2 referred to.

(*) In practice there is no cut-off point in relation to the progression from or the adoption of one stage or form to another, i.e. the stages blend into each other.

New forms of foreign investment.

Present forms (need for development or the practices associated with their implementation).

Present forms.

A zigzag arrow indicates progression to the next stage expanding and undertaking new investment if it is also desired by a foreign firm concerned.

Denotes for a foreign firm concerned progression to more market information, more control over its operations, more investment, more risk, more profits, etc.

Indicates (in the case of Egypt) the possibility of attracting more foreign investment, investors, more prospective benefits, etc.

(3) If Egypt still insists on the establishment of national agencies only, the local consumers will gain only if the activities of the national agents result in either lower prices to consumers or bigger quantities and better quality of the goods sold locally.

(4) If the adoption of new forms of FDI enables Egypt to attract large number of foreign firms, it may lose some degree of control over the economy, and this in consequence may raise again the issues of transfer resource effects (capital and profit repatriation, foreign exchange drain, etc.).

(5) If the government permits 100% foreign-ownership it will be able to increase foreign capital inflow, level of technology brought in, R & D effort and developemnt, but taking no. 4 above into account, domestic ownership will be adversely effected, and other issues of dependency will reamin as cause for concern, etc.

(6) The adoption of any new form or a combination of forms of FDI does not by itself mean that the country becomes attractive for foreign firms to undertake new or additional investments; it requires in addition the development of suitable policies to market the country itself and the introduction of effective administration and practices,etc.

(7) A new foreign firm in Egypt may avoid contracting or investment venturs with public companies or government ventures i.e. it may give preference to a local private partnership. This may raise either the question of private

sector capability or commitment or the availability of the local private partner (as demosntrated earlier).

If it is not accepted the proposed new forms, questions to raise for the feasibility of the current policies including the related practices, organisation, etc. This in turn means that many - if not all - the requirements referred to (in Chapter three - section E) must be taken into account if any attempt for developing the status of FDI is considered.

Briefly, with the foregoing considerations in mind, in most cases performance requirements and other pre-conditions seem to be of great influence in favour of the country. This is true whether or not Egypt decides to accept the need for introducing new forms of FDI into the economy or still relies on the currently implemented/adopted ones.

(2) Policies aiming at greater achievement of specific contributions of FDI:

Among those investment policies which achieve specific objectives in Egypt appear to be:

(1) Export-oriented investment. Despite the fact that law no. 43 of 1974 referred to a special priority to be given to the type of investment projects, the empirical evidence gives no indication of the evidence of such investment. This may denote that the instruments/incentives required to promote such investment are not efficient or are not clearly

defined. Thus, if Egypt intends to make a greater contribution not only in terms of foreign exchange gains but aslo employment, technolgoy, capital inflow, etc. which may attribute to this type of investment - where everything is static - a new incentives scheme must be designed specifically to promote it (experience of other developing countries such as Singaproe, S. Korea, Israel, Tunisia, etc. are helpful in this respect).

(2) Labour-intensive versus capital-intensive investment (Technology choice):

Unlike some developing countries, Egypt with its population booming which intensifies the need for job creation (and the very large number of educated and well trained workers available) and its need for advanced technology to enable Egyptian goods to be more competitive world-wide, it is probalby difficult to put forward specific suggestions in respect of the choice of the level of technology to be brought in. It is nevertheless useful to suggest taking into account the wide range of factors influencing technology choice and available alternatives mentioned earlier - that the need for capital-intensive investment is relativley indisputable for the best interests of Egypt. On the one hand, most - if not all - the requirements of capital intensive investment already existed there. Most FDI projects required for developing countries like Egypt are undoubtedly capital-intensive rather than labour intensive. Even with the apparent importance of technology appropriate to Egypt's factor endowments, this does not mean that capital-intensive investments should be banned ,labour intensive investment increased at the expense of the former. On the other hand, even if GAFI chose the present approved projects in the light of appropriateness requirements, the question of disappointing performance of investment projects will have to be considered. Furthermore, labour-intensive projects are not limited. Employment-generation does not aslo exclusively relate operations involving a low level of technology. Traditional primary and heavy industry investments and supporting investment projects such as transportation and other infrastructure investment etc. Can generate considerable direct and indirect employment contributions. Finally, to compete worldwide, Egypt needs capital-intensive investment. Special measures and/or special incentives scheme must be designed to encourage such types of investment.

(3) Localisation of manpower. In order to enlarge employment opportunities for skilled, semi-skilled, etc. labour and professional and technical as well as managerial personnel, a new policy for localisation of manpower is required. Localisation of manpower here includes e.g. gradual replacements of expatriate workers by nationals, representation of natioanls in high level managerial functions, etc. provided the required skills are available locally If the required skills at every level are not available, the government or foreign firms should train the personnel

needed and then replacement of the expatriate by nationals can take place(*). Localisation of manpower may however make a relative increase in employment and also eliminate repatriation of income or foreign exchange, etc.

4) Import-substitution investment projects (domestic-oriented) should be promoted by offering special incentives scaled to the need for products in the deomstic market and the economy in general, the size of the work force, the use of local prdouction inputs including capital borrowing,etc. This is in addition to new adjustments or modifications of the present trade measures and regulations, as well as from time to time(*).

(5) Policies aiming at greater vertical and horizontal integration and linkages of investment with the local economy. Although the success of promoting or adopting such policies is dependent upon numerous factors e.g. availability of domestic inputs required (ranging from related infrastructure facilities,marketing services,etc. to the raw material) and forms of investment permitted, etc. it is necessary to foster vertical and horizontal linkages between the local economic sectors and foreign investment projects. The establishment of these linkages, may help in promoting e.g. local entrepreneurs, private ownership,

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(*) These conditions can be considered under pre-conditions and performance requirements.

capital formation, etc. To promote the creation of these linkages, all incetnives offered must be scaled to eg. the degree of integration (and its type) of the investment projects with the existing ones or the degree of integration of investment projects that will be undertaken by a particular investor, etc.

(6) Policies aiming at developing national priorities relative to the investment projects (selection of FDI projects). These policies can be considered in relation to those previously outlined. The reason here is probably that investment proposals should be classified according to certain priorities in the light of both national objectives and the incentives offered and the time of implementing the projects. For instance, investment projects and related benefits and/or objectives that can be achieved or brought in without excessive incentives or promotion (in Egypt for example Hotels, Banks and other tourism projects) should be treated differently from those that cannot be achieved without active govenrment promotion. In other words, projects that will result in immediate desirable benefits should be given special attention).

7) Regional development policies. The country must be divided into certain regions according to the development requirements of each region. Discrimination between regions is therefore required in relation to incentives offered for incoming projects(experience of other developing countries

referred to including some pre-conditions and performance requirements is helpful in this respect also).

8) Policies aiming at strengthening the indigenous companies in order to be more competitive (see for example table E-41 and related analysis).

(3) Performance-Oriented policies

These policies or measures are concerned with the actual perofmrance of the investment projects. Incentives, privileges, etc. can be associated with or apply if the investment proejcts do contribute to achieving specific objectives. Taking into account the realised study findings drawn form the examination of requirements for policy change (especially those of table E-37 and E-39), it is however important to repeat that offering some types of incentives, privilegs, facilities, etc. to incoming foreign investment must be scaled to or applied side by side with eg.. size of the workforce, regional development, types of projects, contribution to balance of payments effects, use of domestic contents, etc. This is in addition to:

1. Providing special incentives (fiscal and non-fiscal) to encourage or accelerate the implementation of investment projects(*).

(*) The percentages (or ratios) of excecution of projects approved since 1974 up to 30/6/1983 for example were as follows: projects under execution 25% of the total number of projects approved and projects which have reached the production stage 50% (see also tables nos. 7, 8 and 9 in Appendix A).

(2) Special incentives to be granted relative to the period of transferring ownership, control and management etc. to local nationals, (public/private) in the case of turn-key projects for example. (3) In terms of other forms of non-equity investment projects fees and royalties, etc. must be considered in connection with timing (short or long-temrs etc.), involvement of the contracts on higher or lower skills, transferring control and management of the projects etc.

Undoubtedly as mentioned earlier, the proposed measures may influence the inflow of foreign investment/foreign firms momentarily, at the same time it is rather difficult to draw any generalization concerning the feasibility of such new measures/policies. It may be established that the current situation of foreign investment in Egypt - as demonstrated earlier - makes it psosible to consider the present indisputable proposal relative to the contributions sought by FDI.

(4) Organizational Development

Deficiencies in GAFI's organizationinclude inadequate administrative procedures, lack of co-operation/co-ordination between governmental agencies concerned with foreign investment, a high degree of centralisation of decision-making processes, etc. in addition to other issues related to GAFI practices that are evident from the findings of the current study. In the light of the previously-examined requirements for policy change', the need for specific organisational development and promotional efforts appears to beindisputable. Examples in this respect can be outlined as follows:

1. Establilshement of an organizational unit to screen the technology that will be brought to Egypt (relative to the impact of FDI).
2. Establishing and maintaining regional R & D units to take part in collecting information about regional market needs, opportunities for investment that are available or can be created, assisting foreign investors in the regions, etc.
3. Increasing the number of branches of GAFI inside Egypt and abroad with full authority to approve investment projects up to £E 5 million, for instance. This may also require the recruitments of new technical staff and other necessary supporting services, etc. (each branch - to some degree - can be treated as what is known as a "profit centre/unit" of GAFI's Cairo. Alternatively, under the supervision of GAFI, approving foreign investment projects could be the responsibility of each Ministry concerned.
4. GAFI'S Cairo in consequence should be entrusted with responsibility for the strategic planning of FDI in general for all the country, settlement of disputes, and approving projects over £E 5 million.

5) Establishing units to be responsible in collaboration

with other government bodies for determining and ... implementing the infrastructural facilities required for the pre-studies or prepared investment projects avialable for foreign participation, etc.

6) Promotion policies in Egypt should be undertaken on both a regional and national basis. (In the case of national promotional policies it would be useful for GAFI to perform this function. Abroad, it should be the responsibility of the official represntatives of GAFI). This is in addition to the need for using other methods i.e. the proposed methods would re-inforce those currently followed in promoting investment opportunities (see talbe E-36).

7) Follow-up and investment review units should be established regionally to monitor the progress of post-approved projects, offering facilities and guidance in the implementation of projects, tackling on the spot any obstacles facing the execution of projects, etc.

Undoubtedly, the above proposals for organizational development involve costs, but benefits can be derived by e.g. eliminating bureaucratic procedures, accelerating the rate of implementation of investment projects, attracting more FDI, etc. Such benefits might well outweigh the cost of implementing the proposals.

Finally, as demonstrated earlier and as far as the foreign investors are concerned a great deal of attention must be paid to remove all types of areas of ambiguities, contradictions, etc. that exist in law no. 43 of 1974 govenring foreign investments in general. Foreign investors need clear rules, few administrative procedures and regulatory requirements connected with investment projects approvals. Even in the case of post-approved investment projects many of the currently carried out regulations relating to import-export subsidies, credits, reinvested profits, undertaking additional investment expansion,etc. in all cases required approval from GAFI or through lack of clarity do not respond to what foreign investors need, etc. All these are issues that need to be reviewed or removed in order to develop the investment climate in broad terms. Generally speaking, it could be argued that strong, reasonable and effective administrative procedures, clear and understandable rules, etc. are elements that may strengthen the government's bargaining power, reduce costs related to promotional programmes and efforts, and make the country more attractive for investment purposes.

Finally, a word of caution must be noted again. It is not possible at present to obtain general quantitative conclusions regarding the cost and benefits (direct and indirect effects) of each of the proposed options/approaches suggested. Partly, because the present proposals are so highly integrated, inter-related and inter-dependent, partly too, because there are other related courses of action (which can be added and/or derived from the proposals under considerations) which have not been pointed out i.e. the proposals do not contain in detail for example measures directly related to trade barriers or measures that appeared to be strongly linked to various types of incentive programmes and short term economic policies, etc. which should be incorporated in the proposal. This is in addition to the fact that the proposals do not explore in detail the alternatives other than FDI.

Moreover, a number of implications of the current new approaches presented earlier including those which have been examined in Chapter (3) in Section (E) may be related to the questions of whether the Egyptian government can adopt and implement all the proposed changes, when and how, etc. Undoubtedly, the new approaches in general might appear somewhat arbitrary, yet the realities of the current situation of foreign investment in Egypt makes it possible to suggest that the proposals derived from the present study can have a large part to play from the point of view of the potential contributions of foreign investment to Egypt's overall development. As mentioned earlier, with the possible negative impact of many suggested courses of actions especially those which are related to performance-requiremetns and other pre-conditions etc. in mind, it could be argued that the operations of the foreign firms cannot be left to a freely operating market. Additionally, it is doubtless that FDI is not the only source which embodies the complete package of benefits sought. Technology, employment, foreign capital and other positive transfer resource effects can also be obtained effectively from sources other than FDI.

To sum up, the variety of factors, policies, measures and so forth associated with foreign investment and the importance or feasibility of the present new approaches in general may enhance the need for further studies from which useful contributions might be obtained to the best of Egypt.

APPENDIX (A)

SUPPLEMENTARY DATA ON THE EGYPTIAN ECONOMY AND FDI

Table (1) Output of selected industrial products (in thousands of metric tons unless otherwise stated) -1973-78.

Products	Previous Peak Output & Year	1973	1974	1975	1976	1977	1978*
Spinning & weaving products							
Cotton Yarns	179(1972)	182	179	181	193	210	220
Cotton Textiles	115(1972)	118	120	122	138	905	940
Wollen Yarns & Fabrics	19(1965)	11	11	12	13	-	-
Foodstuffs,etc.							
Sugar	610(1972)	633	577	526	576	614	700
Cheese	135(1972)	135	135	153	147	149	160
Preserved fruit & vegetables	26(1971/72)	24	18	24	48	41	55
Cottonseed oil	158(1971/72)	160	170	161	160	166	170
Oilseed cakes	733(1965/66)	600	540	720	417	430	465
Soft drinks (mill.of bottles)	751(1964/65)	600	660	784	960	984	1300
Beer (mill. of litres)	30(1972)	32	29	29	30	39	43
Cigarettes (billions)	23(1972)	23	23	21	28	25	27
Dairy products	168(1972)	174	177	194	176	-	-
Chemicals, etc.							
Soap	154(1968)	143	183	219	227	-	-
Sulphuric acid	227(1967/68)	23	30	36	28	27	36
Superphosphate	522(1971/72)	419	465	520	493	513	530
Ammon.nitrate(31% nitrogen)	438(1967/68)	210	320	400	530	1258	695
Tires (thousands)	927(1972)	860	814	923	859	903	795
Paper and Cardboard	152(1972)	149	131	146	92	-	-
Caustic Soda	20(1969)	14	14	37	37	-	-
Engineering Products							
Cars (units)	6130(1972)	5590	8169	11576	9799	12817	12880
trucks & tractors (units)	2956(1972)	2761	2342	2825	3807	4445	3030
Buses (units)	1155(1965/66)	413	360	305	307	475	470
Refrigerators (thousands)	68(1969/70)	39	55	109	112	129	130
Television Sets(thousands)	84(1966/67)	49	68	77	88	138	135
Metallurgical products							
Reinforcing bars	251(1969/70)	226	232	219	202	230	275
Steel Sections	135(1968/69)	87	81	106	151	128	145
Steel Sheets	179(1972)	167	125	211	156	235	225
Cast Iron products	54(1962/63)	53	55	66	63	78	72

Table (1) Continued.

Cement	3921(1971)	3617	3263	3579	3362	-	-
Glass	21(1971)	24	16	20	22	-	-
<u>Mining Products</u>							
Phosphate	748(1967/68)	540	499	428	392	468	445
Iron ore	553(1965/66)	-	1033	2424	-	-	-
Salt	498(1952)	656	1302	1087	1242	-	-
Refined petrol.products	6264(1972)	6623	6882	8614	9950	10302	-

* Estimated from figures for the first nine months of 1978.

<u>Source:</u> Ministry of Industry and Mining, Cairo, Egypt and National Bank of Egypt: Economic Bulletin no. 1, 1978, table 514, in D.W. Carr Foreign investment and development in Egypt, <u>op.cit.</u>, pp. 82-383.

Table (2) Sectoral percentage shares in GDP at factor costs 1947-76.

	1947	1952	1955/56	1960/61	1964/65	1967/68	1973	1976
Agriculture	38	33	34.4	31.5	29.7	29.0	26.3	31
Industry	13	13	13.4	20.1*	21.5	20.3	21.3	22
Electricity			0.4	0.8	1.2	1.7	1.8	1
Construction	0.4	0.4	2.3	2.8	4.7	3.6	4.2	4
Transport	3	3	6.0	7.3	8.9	5.5	5.7	7
Trade	6	7	11.0	10.4	8.6	9.3	9.2	11
Housing	19	19	7.3	6.4	3.8	5.5	4.6	3
Utilities	7	7	n.a.	0.5	0.4	0.5	0.6	0.4
Services	14	17	21.1	19.9	21.1	24.2	26.2	20

*The increase in industry's share between 1955/56 and 1960/61 is largely definitional.
Sources The 1947 and 1952 figures are from Bent Hansen and Karim Nashashibi, *Foreign Trade Regimes and Economic Development Egypt* (New York: National Bureau of Economic Research, Columbia Press, 1975), p. 12 and the 1976 figures were obtained from National Bank of Egypt, *Economic Bulletin* (No. 3, 1977), p. 263. The remainder are from Mabro and Radwan "The industrialization of Egypt, 1939-73", p.47, in D. W. Carr foreign investment and development in Egypt, op.cit., p. 32.

Table (3) GDP & Other sectoral targets in 1986/87 compared with the same in 1981/82.

	£E mn at 1981/82 prices		Growth rate	Production Input:output ratio (%)		GDP share (%)	
	1981/82	1986/87	% pa	1981/82	1986/87	1981/82	1986/87
Primary							
Agriculture	3,892	4,660	3.7	28.9	27.6	19.8	16.1
Secondary							
Manufacturing & mining	2,665	4,359	10.3	71.9	70.8	13.6	15.1
Petroleum & products	2,945	5,239	12.2	21.5	20.8	15.0	18.1
Electricity	117	195	10.1	42.0	42.8	0.6	0.7
Construction	930	1,384	8.3	56.9	56.1	4.7	4.8
Sub total	6,657	11,177	10.9	57.3	55.4	33.9	38.6
Tertiary - productive							
Transport, storage & communication	859	1,363	9.7	41.3	37.2	4.4	4.7
Suez Canal	693	899	5.4	3.1	2.8	3.5	3.1
Commerce	2,510	3,488	6.8	39.8	39.3	12.8	12.1
Finance	1,040	1,455	6.9	7.8	6.7	5.3	5.0
Insurance	47	69	8.0	44.7	43.1	0.2	0.2
Restaurants & hotels	230	323	7.0	53.9	52.0	1.2	1.1
Sub total	5,379	7,598	7.2	33.2	32.2	27.4	26.3
Tertiary - social							
Housing	356	549	9.0	10.0	8.0	1.8	1.9
Public utilities	38	72	13.9	42.9	40.7	0.2	0.2
Social & personal	810	1,127	6.8	21.6	23.4	4.1	3.9
Social insurance	21	30	8.0	42.8	42.0	0.1	0.1
Government services	2,486	3,707	8.3	30.2	29.2	12.7	12.8
Sub total	3,711	5,485	8.1	27.1	26.7	18.9	18.9
Total	19,639	28,920	8.1	42.6	42.4	100.0	100.0

Source: FYP in C. Daniels, Egypt in the 1980's, op.cit., pp.117-118.

Table (4).

GNP: Final Expenditure at Current Market Prices, 1975-1981/82
(£E mn)

	1975	1976	1977	1978	1979	1980/81	1981/82
Private consumption	3,293	3,863	4,917	6,279	8,623	10,632	14,551
Government consumption	1,213	1,571	1,697	1,841	2,059	2,697	3,630
Gross fixed capital formation	1,228	1,385	1,838	2,618	3,346	4,414	4,950
Increase in stocks	100	195	561	416	450	486	200
Total domestic expenditure	5,834	7,014	9,013	11,154	14,478	18,229	23,331
Plus exports	948	1,034	1,773	1,945	3,252	5,097	5,411
Less imports	-1,920	-1,772	-2,575	-3,316	-5,254	-6,522	-8,015
Gross domestic product	4,861	6,276	8,210	9,782	12,475	16,804	20,727
Net factor receipts from abroad	148	133	433	983	785	1,313	865
Gross national product	5,009	6,409	8,643	10,765	13,260	18,117	21,592
GDP ratios (%)							
Private consumption	67.7	61.6	59.9	64.2	69.1	63.3	70.2
Government consumption	25.0	25.0	20.7	18.8	16.5	16.0	17.5
Gross fixed capital formation	25.3	22.1	22.4	26.8	26.8	26.3	23.9
Increase in stocks	2.1	3.1	6.8	4.3	3.6	2.9	1.0
Total domestic expenditure	120.0	111.8	109.8	114.0	116.1	108.5	112.6
Plus exports	19.5	16.5	21.6	19.9	26.1	30.3	26.1
Less imports	-39.5	-28.2	-31.3	-33.9	-42.1	-38.8	-38.7
GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Net factor receipts	3.0	2.1	5.3	10.0	6.3	7.8	4.2
GNP/GDP	103.0	102.1	105.3	110.0	106.3	107.8	104.2

Source: IMF International Financial Statistics, in C. Daniels, Egypt in the 1980's op.cit., p.48.

Table (5) Projected GNP, 1982-83 - 1986/87 (£E million)

Sector	1982/83	Per Cent	1986/87	Per Cent	Average Annual Growth (per cent) 1981/82-1982/83	1981/82-1986/87
Agriculture	4000.0	18.8	4629.0	16.1	2.8	3.5
Mining & Industry	2905.8	13.6	4529.4	14.9	9.0	9.8
Oil & Products	3547.6	16.6	5508.9	19.2	20.5	13.3
Electricity	126.8	0.6	194.6	0.7	8.2	10.7
Building & Construction	1004.7	4.7	1324.0	4.6	8.1	7.3
Total Commodity Sectors	11584.9	54.3	15915.9	55.5	9.8	8.6
Communication transport & storage	916.0	4.3	1110.0	3.9	6.7	5.3
Suez Canal	719.6	3.4	944.5	3.2	3.9	6.4
Commerce	2680.4	12.6	3470.0	12.2	6.8	6.7
Finance	1097.0	5.2	1455.2	5.1	5.5	6.9
Insurance	51.3	0.2	69.1	0.2	9.1	8.0
Restaurants & Hotels	239.5	1.1	323.1	1.1	4.0	7.0
Total Productive Services	5703.8	26.8	7272.1	25.7	6.0	6.5
Housing	401.0	1.9	548.7	1.9	12.5	9.0
Public Utilities	42.0	0.2	72.3	0.3	11.4	13.9
Social & Private Services	866.0	4.1	1083.4	3.8	7.0	6.0
Social Insurance	22.3	0.1	30.3	0.1	8.3	8.0
Government Services	2696.0	12.6	3652.7	12.7	8.4	8.0
Total Social Services	4027.3	18.9	5387.4	18.8	8.5	7.7
Grand Total	21316.0	100.0	28675.4	100.0	8.5	7.9

Source: EBCC, 1983.

Table 6 Distribution of the Capital Assets of the Inland Projects that Started Production by Nationality of the non-Arab Investors up-to 31.12.1981

Types of Activity	Total Capital	American	French	British	German	Italian	Swiss	Greek	Danish	Austerian	Luxembourgian	Dutch	Romanian	Iranian	Others
1. Investment	23345	879	2600	91	1982	12	1441		—	.	3592	70	—	—	12678
2. Banks	55926	12800	10766	2945	840	—	.		—	.	9331	—	380	14000	4864
3. Tourism	9217	60	570	910	1365	500	2951	—		—	1090	—		—	1771
4. Housing	—	.	—	—	—	—	—	.	.	—	.	—	—		
5. Trans. & Commun.	9384	—	2800	—	281	—	2410	—	—	.			—	—	3893
6. Agri. & Husbandry	5965	—	3300	—	431	114	—	400	420	—		—	.	—	1300
7. Contracts	9897	148	175	1880	890	530	1715		—	400	1000	142		750	2267
8. Tech. Consultancy	2498	579	—	137	100	25	632	—	—	—	79	.	—	50	896
9. Services	25141	759	379	175	245	14	—	—	—	—	560	.	—	—	409
10. Spin. & Weaving	5359	3779	490	299	—	—	—	89	—	155	—		—	—	547
11. Food	6351	—	180	219	111	150	317	—	—	—	4856	—	—	—	518
12. Chemical	6715	3486	214	210	377	—	631	500	—	—	—	1147	—	—	150
13. Wood	114	57	250	—	196	—	36	—	—	.	429	176	—	—	—
14. Engineering	6156	47	—	1652	2913	180	850	—	—	—	206	.	—	—	308
15. Const. & Fireclay	1420	—	720	—	—	—	700	—	—	—	—	—	—	—	
16. Metal	3435	203	—	1300	87	1000	150	—	—	—	170	—	—	—	525
17. Pharmacological	3371	3203	—	—	—	—	168	—	—	—	—	—	—	—	—
18. Mining	39	—	—	—	—	—	39	—	—	—	—	—	—	—	—
19. Petroleum	12241	—	343	—	10174	1400	—	—	330	—	—	—	—	—	—
20. Health & Hosp.	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Total	165010	26000	22787	9818	19992	3925	12040	989	750	555	21313	1535	380	14800	30126
Per cent Share	100.0	15.8	13.8	5.9	12.1	2.4	7.3	.6	.5	.3	12.9	.9	.2	9.0	18.3

Source: CAPM's, opposite B-49.

Table (7) Approved inland and Free Zones projects since 1974 up to 1983 (value in £E Million).

(December 1982)	No. of Projects	Capital: Local C.	Capital: Foreign C[1]	Capital: Total	(2) Total Investment	(December 1983)	No. of Projects	Local C.	Foreign C	Total	Total Invest. Costs
1. Investment & Finance	213	369.0	1072.0	1461.0	1537.0	1. Investment Companies	230	562.3	1091.5	1653.8	1808.4
2. Banking	77	322.0	299.0	621.0	621.0	2. Banks & Bnking.Inst.	76	248.9	289.8	538.7	538.7
3. Tourism	115	276.0	375.0	651.0	1197.0	3. Touristic Projects	119	226.7	44r.5	668.2	1352.8
4. Housing	63	124.0	112.0	236.0	631.0	4. Housing Projects	63	127.7	125.5	253.2	657.3
5. Tranportation	21	9.0	33.0	42.0	94.0	5. Transportation Proj.	21	8.7	32.7	41.4	94.5
6. Hospital & Medical Centre	25	29.0	24.0	53.0	105.0	6. Health & Medical Centres	32	59.9	39.5	99.4	197.6
7. Agriculture	88	135.0	78.0	213.0	482.0	7. Agricultural proj.	109	147.8	120.4	268.2	60.19
8. Contracting	118	57.0	70.0	127.0	225.0	8. Contracing proj.	130	68.9	79.4	148.3	282.8
9. Consulting	29	4.0	6.0	10.0	11.0	9. Consultation proj.	30	4.0	6.1	10.1	11.8
10. Services	45	37.0	168.0	205.0	321.0	10. Services projects	44	40.9	177.8	218.7	341.7
11. Textles & Clothing	62	97.0	83.0	180.0	744.0	11. Textile projects	73	112.6	102.4	215.0	802.8
12. Food & Beverages	92	75.0	109.0	184.0	482.0	12. Food & Beverages	99	79.5	117.8	197.3	509.9
13. Chemicals	108	166.0	250.0	416.0	1275.0	13. Chemical projects	121	183.9	321.9	505.8	1392.8
14. Wood & Furniture	17	9.0	18.0	27.0	50.0	14. Wood products proj.	16	7.3	20.4	27.7	45.3
15. Engineering	59	68.0	81.0	149.0	358.0	15. Engineering proj.	55	58.3	100.5	158.8	338.1
16. Buidling Materials	77	150.0	104.0	254.0	672.0	16. Building Mat.Proj.	88	154.5	150.9	305.4	828.3
17. Metallurgicals	39	50.0	50.0	100.0	508.0	17. Metallurgical Proj.	51	141.8	144.1	285.9	712.7
18. Pharmaceuticals	13	24.0	15.0	39.0	77.0	18. Pharmaceutl.proj.	24	59.0	47.3	106.3	240.6
19. Mining & Petroleum	12	21.0	23.0	44.0	113.0	19. Mining & Petroleum	11	29.3	18.8	48.1	116.7
Total	1273	2042.0	2970.0	5012.0	9503.0	Total	1392	2322.0	3428.3	5750.3	10874.7
B. General Free Zones :						B. Public Free Zones:					
1. Cairo	40	0.5	46.0	46.5	47.0	1. Cairo	38	0.5	44.7	45.2	63.1
2. Alexandria	120	0.5	76.0	76.5	140.0	2. Alexandria	115	0.4	76.8	77.3	142.1
3. Suez	45	0.5	29.0	29.5	37.0	3. Suez	36	0.3	49.7	50.0	102.0
4. Port Said	96	2.0	95.0	97.0	119.0	4. Port Said	93	1.9	99.1	101.0	115.7
Total	301	3.5	246.0	249.5	343.0	Total	282	3.1	270.3	273.4	422.9
C. Private Free Zones:						C. Private Free Zones:					
1. Cairo	25	2.0	1209.0	1211.0	1222.0	1. Caior	24	0.3	635.8	636.1	649.3
2. Alexandria	24	4.0	248.0	252.0	1008.0	2. Alexandria	24	4.2	243.5	247.7	389.9
3. Suez	6	0.1	34.1	34.2	39.0	3. Suez	6	0.1	34.2	34.3	38.4
4. Port Said	5	-	5.0	5.0	13.0	4. Port Said	4	-	1.5	1.5	1.9
Total	60	6.1	1496.1	1502.2	2282.0	Total	58	4.6	915.0	919.6	1079.5
Grand Total[3]	1634	2051.6	4712.1	6736.7	12146.0	Grand Total	1732	2329.7	4613.6	6943.3	12377.1

Notes: (1) C = Currency (2) $ = 0.70 £E (3) It has been reported by GAFI that 141 projects have withdrawn over 1974 up to 1982.

Source: GAFI, facts and figures. Cairo, 1982 and 1983.

Table (8) Projects in operation since 1974 up to 1983 (value in £E million)

December 1982						December 1983					
	No. of projects	Capital Local C.	Capital foreign C	Capital Total	Total Investment		No. of projects	Local C.	Foreign C	Total	Total Inves Costs
A. Inland projects						A. Inland projects					
1. Investment & Finance	71	202.0	220.0	422.0	463.0	1. Investment & Finance	89	290.7	370.4	661.1	779.3
2. Banking	63	208.0	240.0	448.0	448.0	2. Banks & Bnking.Inst.	66	217.6	270.3	487.9	487.8
3. Tourism	36	37.0	78.0	115.0	226.0	3. Touristic projects	41	49.6	90.6	140.2	261.0
4. Housing	15	4.0	15.0	19.0	108.0	4. Housing projects	22	8.9	23.5	32.4	150.0
5. Transportation	11	5.0	29.0	34.0	81.0	5. Transportation proj.	13	6.5	29.2	35.7	83.5
6. Hospitals & Medical Centre	10	13.0	13.0	26.0	43.0	6. Health & Medical centres	16	31.1	20.4	51.5	92.0
7. Agriculture	29	65.0	43.0	108.0	222.0	7. Agricultural proj.	38	74.2	50.1	124.3	275.1
8. Contracting	54	21.0	29.0	50.0	89.0	8. Contracting proj.	69	30.5	35.2	65.7	133.8
9. Consulting	20	3.0	5.0	8.0	9.0	9. Consultation proj.	20	3.4	4.9	8.3	9.4
10. Services	23	29.0	14.0	43.0	128.0	10. Services projects	23	29.2	16.1	45.3	127.8
11. Textile & Clothing	37	26.0	32.0	58.0	122.0	11. Textile projects	43	32.6	50.7	83.3	160.3
12. Food & Beverages	37	28.0	30.0	58.0	142.0	12. Food & Beverages	44	30.9	31.9	62.8	142.0
13. Chemicals	62	24.0	53.0	77.0	132.0	13. Chemical projects	69	38.4	82.9	121.3	226.4
14. Wood & furniture	8	1.0	5.0	9.0	17.0	14. Wood Prod. Projects	10	5.4	17.6	23.0	38.1
15. Engineering	25	10.0	18.0	28.0	40.0	15. Engineering proj.	24	11.8	19.5	31.3	46.4
16. Building Material	20	14.0	17.0	31.0	64.0	16. Building Mats.proj.	29	67.0	46.5	113.5	359.8
17. Metallurgicalls	21	12.0	16.0	28.0	44.0	17. Metallurgical proj.	23	13.2	19.1	32.3	49.7
18. Pharmaceuticals	3	0.4	3.6	4.0	5.0	18. Pharmaceuti proj.	3	0.4	3.8	4.2	6.8
19. Mining & Petrol.	7	2.6	13.4	16.0	33.0	19. Mining & Pet. proj.	8	6.8	14.7	21.5	39.6
Total	552	708.0	874.0	1582.0	2416.0	Total	650	948.2	1197.4	2145.6	3468.8
B. General Free Zones						B. Public Free Zones					
1. Cairo	29	0.5	26.0	26.5	33.0	1. Cairo	27	0.5	23.7	24.2	30.9
2. Alexandria	73	0.4	40.8	41.0	68.0	2. Alexandria	75	0.4	47.6	48.0	90.1
3. Suez	23	0.3	7.6	7.9	10.0	3. Suez	22	0.3	9.0	9.3	11.2
4. Port Said	82	1.8	81.6	83.4	97.0	4. Port Said	84	1.9	79.3	81.2	90.0
Total	207	3.0	156.0	159.0	208.0	Total	208	3.1	159.6	162.7	222.2
C. Private Free Zones:						C. Private Free Zones					
1. Cairo	18	1.6	24.9	26.5	35.0	1. Cairo	17	0.3	25.7	26.0	36.2
2. Alexandria	18	0.4	171.8	172.2	233.0	2. Alexandria	18	0.4	229.2	229.6	351.0
3. Suez	3	-	26.5	26.5	28.0	3. Suez	5	0.1	32.1	32.2	32.8
4. Port Said	4	-	1.5	1.5	2.0	4. Port Said	4	-	1.5	1.5	1.9
Total	43	2.0	224.7	226.7	298.0	Total	44	0.8	288.5	289.3	421.9
Grand Total	802	713.0	1254.7	1967.7	2922.0	Grand Total	902	952.1	1645.5	2597.6	4112.9

Source: GAFI, loc.cit.

Table 9. Projects under implementation since 1974 up to 1983. (Value in £E Million)

	December 1982					December 1983				
	Number of Projects	Capital Local C	Capital Foreign C	Capital Total	Total Investment	Number of Projects	Capital Local C	Capital Foreign C	Capital Total	Total Investment
A. INLAND:										
1. Investment & Finance	55	90.0	80.0	170.0	176.0	60	88.7	86.8	175.5	181.8
2. Banking	6	86.0	43.0	129.0	129.0	2	4.8	2.2	7.0	7.0
3. Tourism	51	82.0	237.0	319.0	622.0	43	77.6	247.6	325.2	673.2
4. Housing	39	53.0	81.0	134.0	355.0	31	52.0	72.9	124.9	326.7
5. Transportation	2	1.0	0.4	1.4	1.7	1	0.1	0.2	0.3	0.3
6. Hospitals & Medical Centers	10	12.0	7.0	19.0	49.0	6	14.7	9.2	23.9	58.3
7. Agriculture	20	21.0	17.0	38.0	94.0	15	15.7	16.2	31.9	76.2
8. Contracting	33	15.0	19.0	34.0	63.0	16	6.6	10.2	16.8	36.7
9. Consulting	4	0.3	0.4	0.7	0.7	6	0.2	0.9	1.1	1.1
10. Services	7	5.0	5.0	10.0	19.0	8	5.2	16.9	22.1	38.8
11. Textiles & Clothing	18	67.0	47.0	114.0	607.0	12	64.2	36.8	101.0	590.5
12. Food & Beverages	28	31.0	29.2	60.2	154.0	24	27.2	32.7	59.9	162.7
13. Chemicals	32	24.0	42.0	66.0	143.0	28	19.1	32.9	52.0	95.2
14. Wood & Furniture	6	2.0	9.2	11.2	19.0	5	1.6	2.7	4.3	6.3
15. Engineering	14	11.0	19.0	30.0	60.0	13	11.3	18.9	30.2	60.7
16. Building Materials	38	106.0	57.0	162.0	457.0	31	51.0	45.8	86.8	252.1
17. Metallurgicals	12	32.0	29.3	61.3	448.0	12	111.6	103.4	215.0	601.8
18. Pharmaceuticals	6	8.0	7.0	15.0	33.0	6	10.2	7.2	17.4	41.9
19. Mining & Petroleum	3	4.0	2.0	6.0	8.0	1	-	0.2	0.2	0.6
Total	384	650.0	731.5	1381.8	3438.0	320	561.8	743.7	1305.5	3211.9
B. GENERAL FREE ZONES:										
Total	44	0.3	45.6	45.9	77.0	43	-	55.1	55.1	81.2
C. PRIVATE FREE ZONES:										
Total	6	0.4	69.2	69.3	785.5	3	-	103.1	103.1	104.8
GRAND TOTAL	434	650.7	846.3	1497.0	4250.8	366	561.8	901.9	1463.7	3397.9

<u>Source:</u> GAFI, loc.cit.

Table (10) Distribution of the Free Zones Projects that Started Production and Assets by Types of Activity, System of Operation, and Governorate of Location up to 31.12.1981.

	No. of Projects										
	Special Free Zones					General Free Zones					
Types of Activity	Total	Cairo	Alex.	Pirt Suez	Port Said	Total	Cairo	Alex.	Suez	Port Said	Grand Total
1. Storage	4	4	—	—	—	140	18	38	20	64	144
2. Services	16	4	10	—	2	2	—	—	—	2	18
3. Trade & Finance	3	3	—	—	—	—	—	—	—	—	3
4. Agri & Animal Husb.	—	—	—	—	—	—	—	—	—	-	—
5. Spin. & Weaving	2	2	—	—	—	9	4	4	—	1	11
6. Food Industries	1	—	1	—	—	5	—	1	—	4	6
7. Chemical Industries	3	2	1	—	—	7	—	1	—	6	10
8. Engineering Industries	1	1	—	—	—	5	1	3	—	1	6
9. Constr. Fireclays	2	—	2	—	—	3	—	—	—	3	5
10. Metal	—	—	—	—	—	5	1	—	1	3	5
11. Pjarmacological	—	—	—	—	-	1	1	—		—	5
12. Mining Industries	1	—	1			—	—	—	—	—	1
13. Petroleum Industries	5	3	1	1	—	—	—	—	-	—	5
Total	38	19	16	1	2	177	25	47	21	84	215

<u>Source:</u> CAPMS' Status of the Open Door Economy, <u>op.cit.</u>, p.64.

APPENDIX B

The Law No. 43 of 1974 concerning the investment of Arab and foreign funds and the Free Zones as amended by Law no. 32 of 1977

THE ARAB REPUBLIC OF EGYPT

THE GENERAL AUTHORITY FOR INVESTMENT
AND FREE ZONES

LAW No. 43 of 1974

CONCERNING

THE INVESTMENT OF ARAB AND FOREIGN FUNDS

AND THE FREE ZONES

AS AMENDED BY LAW No. 32 OF 1977

Decree of the President of the Arab Republic of Egypt enacting Law No. 43 of 1974, concerning, Arab and Foreign Capital Investment and Free Zones *.

In the Name of the people.

The President of The Republic

The People's Assembly has approved the following, and it has been issued :

Article 1 :

Arab and foreign investments and free zones are governed by the attached law.

Article 2 :

Matters not covered by this Law are subject to the applicable laws and regulations.

Article 3 :

The Minister of Economy and Economic Cooperation shall issue, upon recommendation of the Board of Directors of the General Authority for Investment and the Free Zones, the executive regulations implementing this law within three months of its enactment.

Article 4 :

Law No. 65 of 1971 on Arab Capital Investment and Free Zones is hereby repealed. Any other provision contrary to what is stated in the present law is also repealed. Projects approved under said law shall continue to enjoy the rights and privileges specified thereunder. Projects approved prior to the implementation of law No, 65 of 1971 shall continue to enjoy the privileges and guarantees granted to such projects prior to the coming into force of said law.

Article 5 :

This Law shall be published in the Official Gazette and will receive the seal of the State and shall come into force from the date of its publication.

Signature of the President
19 June, 1974

* Law No. 43 of 1974 has been amended by Law No. 32 of 1977 (the «Amending Law»). The following text of Law No. 43 incorporates all changes made by Articles 1-4 of the Amending Law, which changes are set forth in italic type. Articles 5, 6, 7 and 8 of the Amending Law do not effect changes in the text of Law No. 43 and are set forth in Annex A hereto.

CHAPTER ONE

INVESTMENT OF ARAB AND FOREIGN CAPITAL

Article 1:

The term «project» in the application of the provisions of this Law shall mean any activity included within any of the spheres therein specified and approved by the Board of Directors of the General Authority for Investement and Free Zones.

Article 2 :

The term «invested capital» in the application of the provisions of this Law shall be deemed to mean the following :

i. Freely convertible foreign currency duly transferred to the Arab Republic of Egypt through a bank registered at the Central Bank of Egypt for utilization in the execution or expansion of a project ;

ii. Machinery, equipment, transportation equipment, raw materials and commodity requirements imported from abroad necessary for the establishment or expansion of the project, provided that such are compatible with modern technological developments and have not been previously used, unless the Authority's Board of Directors grants exemption from such condition ;

iii. Intangible assets, such as patents and trade marks registered with member states of the International Convention for the Protection of Industrial Property, or in accordance with the rules of international registration contained in the international conventions concluded in this respect and held by residents abroad and pertaining to the projects ;

iv. Freely convertible foreign currency spent by the investor on preliminary studies, research, and incorporation and paid within the limits approved by the Authority's Board of Directors ;

v. Profits realized by the project if utilised in increasing its capital or if invested in another project, conditional on the approval of the Authority's Board of Directors in both cases ;

vi. Freely convertible foreign currency transferred to the Arab Republic of Egypt through a bank registered at the Central Bank of Egypt and utilized to subscribe to shares of stock in Egyptian companies or to purchase same from the stock exchange in the Arab Republic of Egypt in accordance with the rules adopted by the Authority's Board of Directors ; and

vii. Freely convertible foreign currency transferred to the Arab Republic of Egypt through a bank registered at the Central Bank of Egypt and utilized in pruchasing land, whether vacant or not, for the construction of buildings thereon pursuant to the provisions of this Law, even if purchased before obtaining the Board of Director's approval so long as the act of purchase was effected according to the prevailing Laws and on a date subsequent to the entering into force of Law 65 of 1971.

The valuation of the invested capital referred to in items 2, 3 and 4 shall be subject to the approval of the Authority's Board of Directors and shall be made in accordance with the rules and procedures which shall be specified in the executive regulations.

Article 2 bis :

Invested capital shall be transferred to, and exported from, the Arab Republic of Egypt, and profits generated therefrom shall be transferred in foreign currency abroad in accordance with the provisions of this Law, at the highest rate prevailing and declared for freely convertible foreign currency by the competent Egyptian authorities.

The provisions of the preceding paragraph shall apply to invested capital required to purchase land and property that represent an intergal part of the capital assets of projects approved by the General Authority for Investment and Free Zones.

Article 3 :

The investment of Arab and foreign capital in the Arab Republic of Egypt shall be for the purpose of realizing objectives of economic and social development within the framework of the State's general policy and national plan provided that the investment is made in projects in need of international expertise in the spheres of modern development or in projects requiring foreign capital. The projects, contained in the lists to be prepared by the Authority and approved by the Council of Ministers, shall be in the following fields :

i. Industrialization, mining, energy, tourism, transportation, and other fields :

ii. Animal production, water resources, and the reclamation and cultivation of barren and desert land.

The reclamation and cultivation of barren and desert land shall be under long-term tenancy not exceeding 50 years. On the recommendation of the Authority and by approval of the Council of Ministers, this period of tenancy may be extended for one or more periods not to exceed an additional 50 years ;

iii. Projects for housing and for urban development, by which is meant investment in the subdivision of land into parcels and the construction of new buildings together with the provision of public utilities connected therewith ;

The purchase of a building already in existence or of vacant land is not deemed to be a «project» in the context of the provisions of this Law unless intended for construction or for rebuilding and not for the purpose of resale in order to benefit from an increase in market value, without prejudice however to the regulations governing the disposal and repatriation of invested capital contained in this Law. The building shall be completed within the period specified by the Authority's Board of Directors, with no obligation on the part of the State to condemn real property for such project :

iv. Investment companies which aim at utilizing funds in the fields enumerated in this Law :

v. Investment banks and merchant banks and reinsurance companies whose activities shall be confined to transactions effected in freely convertible foreign currencies. The aforementioned banks and companies are entitled to directly undertake financing and investment operations, whether they are in projects in the free zones or for local, joint or foreign projects established within the Arab Republic of Egypt. They may also finance Egyptian foreign trade transaction :

vi. Banks engaging in local currency transactions so long as they are in the form of joint ventures in which local Egyptian capital constitutes at least 51% of the total :

vii. Construction activities in regions outside the agricultural area and the perimeters of existing cities :

viii. Construction contracting activities undertaken by Joint Stock Companies in which there is a minimum Egyptian capital participation of 50% ; and

ix. Technical consulting activities in the form of joint stock companies in partnership with foreign international consulting firms provided that they are related to any project within the fields of activity mentioned herein and that their activities are approved as an integral part of the project by the Authority's Board of Directors on a case-by-case basis.

Each operation shall have a special account in conformity with the system defined by the Minister of Economy and Economic Cooperation and approved by the Board of Directors of the Authority.

Special priority shall be given to those projects which are designed to generate exports, encourage tourism, or reduce the need to import basic commodities as well as projects which require advanced technical expertise or which make use of patents or trade-marks of worldwide reputation.

Article 4 :

The capital invested in the Arab Republic of Egypt under the provisions of this Law shall take the form of participation with public or private Egyptian capital in such fields and under such terms and conditions as are set forth Articles 2 and 3 of the present law. By way of exception from the above :

i. Housing projects, constructed for the purpose of investment, may be undertaken only by Arab capital : Foreign capital may not undertake housing projects in participation with Egyptian capital.

The term «Arab invested capital» shall mean such capital as is owned by a natural person having the nationality of an Arab country or by a juridical person, provided that the majority of its capital shall be held by citizens of one or more Arab countries.

ii. Arab or foreign capital may operate without local participation in investment banks and merchant banks whose activities are confined to transactions effected in freely convertible foreign currencies so long as they take the form of branches of firms the principal offices of which are situated abroad ; and

iii. The Authority's Board of Directors, by a two thirds majority vote of its members, may approve the investment of Arab of foreign capital without local participation in the other fields specified in Article 3.

Article 5 :

Real estate may not be expropriated for the purpose of building investment projects unless such is deemed to be a public utility pursuant to the Law.

Article 6:

Irrespective of the nationality or domicile of their owners, projects in the Arab Republic of Egypt approved under the provisions of this Law shall enjoy the guarantees and privileges set forth in this Law.

Subject to the Authority's approval according to its rules and regulations, projects established in any of the fields set forth in Article 3 entirely with Egyptian capital and owned by Egyptian nationals shall enjoy the privileges and exemptions set forth in Articles 9, 14, 15, 16, 17 and 18.

Subject to the Authority's approval, such exemptions shall apply to joint stock companies existing at the time of the enactment of this law to the extent of new expansion in fields approved under the Law through an increase in capital by cash subscription.

Article 7 :

Projects may not be nationalized or confiscated.

The assets of such projects cannot be seized, blocked, confiscated or sequestrated except by judicial procedures.

Article 8 :

Investment disputes respect of the implementation of the provisions of this Law shall be settled in a manner to be agreed upon with the investor, or within the framework of the agreements in force between the Arab Republic of Egypt and the investor's home country, or within the framework of the Convention for the Settlement of Investment Disputes between the State and the nationals of other countries to which Egypt has adhered by virtue of Law No. 90 of 1971, where such Law applies.

Disputes may be settled through arbitration. An arbitration board shall be constituted, comprising a member on behalf of each disputing party and a third member acting as chairman to be jointly named by the said two members. Failing agreement on the nomination of the third member within thirty days of the appointment of the second member, the chairman shall be chosen, at the request of either party, the Supreme Council of Judicial Bodies from among counsellors of the judiciary in the Arab Republic of Egypt.

The arbitration board shall lay down its rules of procedure unrestricted by the rules contained in the Civil and Commercial Code of Procedure, save the rules which relate to the basic guarantees and priciples of litigation. The board shall see to it that the dispute is expeditiously resolved. Awards shall be rendered by majority vote and shall be final and binding on both parties and enforceable as any other final judgment.

The arbitration board shall decide on the costs of arbitration and shall determine who shall bear such costs.

Article 9 :

Companies enjoying the provisions of this Law shall be deemed to belong to the private sector of the economy, irrespective of the legal nature of the indigenous capital participating therein. Legislation, regulations, and statutes applicable to the public sector of the economy and its employees shall not apply to said companies.

Article :10 :

Projects enjoying the provisions of this Law shall not be subject to Law No. 73 of 1973 in connection with the conditions and procedures for electing labour representatives to the boards of directors of public sector organizations, joint stock companies, and private associations and establishments.

The statutes of the company shall provide for a method of labour participation in the management of the project.

Article 11 :

Provisions of Law 26 of 1954 concerning labourers and employees applicable to joint stock companies, partnerships limited by shares and limited liability companies shall apply to projects irrespective of their legal form. The employees of said projects shall be subject to the Social Insurance Law unless the project provides a more favourable insurance scheme approved by the General Organization for Social Insurance.

Employees of projects shall be exempted from the provisions of law No. 113 of 1955. concerning employment in joint stock companies and public corporations and Article 21 of the labour Law No. 91 of 1959. Employees and members of boards of directors of projects shall also be exempted from the provisions of Law No. 113 of 1961 limiting the remuneration of the chairman and members of board of directors of seconded members to a maximum of L.E. 5000.

Article 11 (bis) :

The projects referred to in the first paragraph of the previous article are subject to the restrictions pertaining to employees of Government and representative bodies set forth in Article 95 through 98 of Law No. 26 of 1954. and to the prohibitions set forth in Article 23 of Law No. 38 of 1972. with regard to members of the People's Assembly.

Prohibited activities in accordance with the provisions referred to in the previous paragraph include undertaking any private activity, directly or through an intermediary, including consulting activities, if during the year prior to leaving office of employment the Minister or public official was involved in licensing the establishment of these projects or supervising their activity.

In the application of the provisions of this Law, the term «Minister» shall mean the Prime Minister, Deputy Prime Minister, Ministers and Deputy Ministers.

Article 12 :

Companies enjoying the provisions of this Law shall be exempt from the provisions of Article 14 paragraph 5 of Law 26 of 1954 concerning labourers and employees applicable to joint stock companies, partenrships limited by shares and limited liability companies, provided that a percentage of the net profits of such companies shall be distributed annually among employees and labourers in accordance with the rules proposed by the company's board of directors and approved by the general assembly.

These companies shall also be exempted from the provisions of Article 2 paragraph (1), Article 11, Article 15 paragraph (1), Article 21 paragraphs (1) and (4), Article 24 paragraph (2), Article 28, 30, 33 and 33 (bis), Article 41 paragraph (4) and Article 66 paragraph (1) of Law

No.26 of 1954. Reperesentatives of foreign natural or juridical persons shall be exempted from the provisions of Article 29 of such Law and non-Egyptian individuals shall be exempted from Article 31 thereof. Shares including founders shares may not be transferred during the first two years of the project unless approved by the Board of Directors of the Authority. These companies shall also be exempted from the provision of Law No. 137 of 1961 concerning the formation of boards of directors of joint stock companies.

Article 13 :

Without prejudice to the provisions of item (vi) of Article 3, the banks benefiting from the provisions of this law shall be excepted from the requirement that Egyptians should own all of its shares contained in paragraph (a) of Article 21 of the Law on Banks and Credit issued by Law No. 163 of 1957. Said banks shall also be excepted from the provisions of paragraph (c) of the same article.

Likewise, investment and merchant banks and reinsurance companies, referred to in item (v) of Article 3, hereof, shall be exempted form the provisions of the laws, regulations, and resolutions regulating control of exchange transactions.

Article 14 :

By way of exception from the provisions of Law No. 97 of 1976 regulating transactions in foreign currency, projects shall have the right to maintain a foreign currency account or accounts with banks registered at the Central Bank of Egypt in the Arab Republic of Egypt. On the credit side of such account or accounts shall be entered the balance of the capital paid in foreign currencies, loans and any other funds of the project so long as they shall be in freely convertible foreign currencies, funds purchased by the project from local banks at the highest rate prevailing and declared for foreign currency, the proceeds of the visible and invisible exports of the enterprise and the proceeds of sales to the local markets in foreign currency.

The project shall have the right, without special permit or authorization, to utilize the said account in transferring the amounts authorized under the provisions of this Law for payments for imports of commodities and investment goods necessary for the operation of the project, for meeting invisible expenses in connection with such imports, for the payment of interest and principal on foreign currency loans, for settling any other expenses necessary for the project & for purchases of local currency at the highest rate prevailing and declared for freely convertible foreign currency. The project shall undertake to submit to the Authority, at the end of each fiscal year, a statement indicating the movement in such account, together with such documents and details as the Authority may request to ascertain that its utilization has been in compliance with the purposes set forth in this Law. Such statement shall be certified by a certified public accountant.

Article 15:

By way of exception from the provisions of the laws, regulations and resolutions governing imports, enterprises enjoying the provisions of this Law shall be allowed to import, on condition of inspection but without a licence, whether by themselves or through a third party, the production facilities, materials, machinery, equipment, spare parts, and transportation equipment required for the installation and operation of the project, that are compatible with the nature of their activities. Such operations shall be excepted from the procedure requiring submission to a committee for the purpose of selecting the best tender, but there shall be no obligation on the part of the Government to provide the foreign currency necessary for such importing operations beyond the bank accounts mentioned in the preceding Article. Projects shall be authorized to export their products whether by themselves or through an intermediary without a license and without such projects having to be registered in the Registry of Exporters.

Article 16 :

Without prejudice to more favourable tax exemptions provided for in any other law, projects shall be exempted from the tax on commercial and industrial profits and the taxes appendent thereto ; likewise, the profits distributed shall be exempted from the tax on the revenues from moveable capital and the taxes appendent thereto, and, as the case may be, from the tax on commercial and industrial profits and the taxes appendent thereto, as well as from the general tax on income, relative to the taxable proportion of such profits as set forth in this provision ; such exemption to be for a period of five years from the first fiscal year following commencement of production or engagement in activities, as the case may be. Such exemptions shall apply for the same period to the proceeds of the profits which are reinvested in the enterprise and for special reserves that are debited to the distribution account after deduction of net

profits and allocated to consolidate the company's financial position and undistributed profits earned during the exemption period and distributed after such period has elapsed. The shares shall be exempted from the annual proportional stamp duty for five years following the date duties are legally due for the first time.

The exemption from the general tax on income is conditional upon such income not being subject to similar tax in the investor's home country or in the country to which income is transferred, as the case may be.

On the proposal of the Authority's Board of Directors, with the approval of the Council of Ministers, the period of exemption shall be eight years, provided such period is required by consideration of public interest in view of the nature of the project, its geographical location, its importance to economic development, the volume of its capital, and the extent to which it participates in exploiting natural resources and increasing exports.

Exemptions for projects involving reconstruction, establishment of new cities outside the agricultural area and the perimeters of existing cities, and land reclamation shall be for a ten year period that may be extended to fifteen years by Decree of the President of the Republic upon recommendation of the Authority's Board of Directors.

Also, by Decree of the President of the Republic, upon recommendation of the Authority's Board of Directors, all capital assets and imported construction material and components necessary for founding projects approved under this Law may be exempted from or granted the privileges of deferred payment or installment payments for, all or part of the customs duties and any other taxes or dues, provided that in the case of exemption, if such items are locally disposed of within five years from the date of import, all such taxes and duties previously exempted shall be paid. In the case of deferred or installment payments, if such items are locally disposed of within five years, or within the deferred or installment payments period if such period exceeds five years, all such taxes and duties shall be paid.

Article 17 :

After the expiration of the tax exemption period established under Article 16, and without prejudice to the provisions of such Article, the profits distributed by a project shall be exempted from the general tax on income up to a maximum of 5% of the original amount of the taxpayer's share in the invested capital.

Article 18 :

Interest due on loans in foreign currency concluded by the project even if in the form of a deposit shall be exempted from all taxes and dues. Such exemptions shall apply as well to the interest on foreign currency loans concluded by the Egyptian participant to finance his share in the project.

Article 19 :

Buildings utilized for administrative purposes, and above average housing, constructed under the provisions of this Law shall not be subject to rent control as stipulated in the laws governing rental of premises.

Article 20 :

Foreign experts and employees brought from abroad to work in any of the projects enjoying the provisions of this Law shall be permitted to transfer from Egypt a portion of the wages, salaries, and compensation which they receive in the Arab Republic of Egypt, provided that such portion shall not exceed fifty percent of their gross earnings.

All payments subject to the Employment Earnings tax, such as wages, salaries bonuses or other similar payments made to foreign employees by projects established according to the provisions of this Law shall be exempted from the general tax on income.

Article 21 :

The party concerned may request the repatriation or disposal of the invested capital after obtaining the approval of the Authority's Board of Directors, provided that five years shall have elapsed from the date of importation of the capital fixed in the registration certificate (the Authority's Board of Directors may waive this condition if it is evident that the accepted project, for which funds have been transferred, cannot be implemented or continued for reasons beyond the control of the investor or for other exceptional circumstances to be considered by the Authority's Board of Directors) in accordance with the following :

i. Invested capital may be transferred abroad at the highest rate prevailing and declared for freely convertible foreign currency in five equal annual installments. By way of exception, the invested capital, calculated under the provisions of this article, shall be transferrable in full to the extent of the credit balance in the foreign exchange account referred to in Article 14 or if the investors had disposed of such invested capital in exchange for freeely convertible foreign currency provided that the Authority is notified of this action ;

ii. If the invested capital was brought in kind, it may, with the approval of the Authority's Board of Directors, be repatriated in kind ; and,

iii. Transfer of the invested capital shall be within the limits of its value at the time of liquidation, or disposal thereof, as the case may be, and shall be on condition that the Authority approves the results of liquidation. The invested capital registered with the Authority may be disposed of for freely convertible foreign currency after informing the Authority. Nevertheless the investor may, with the approval of the Authority's Board of Directors dispose of his invested capital as registered with the Authorty or dispose of part thereof in favour of another party in local currency in which case the party in favour of which such disposal has taken place shall not enjoy the right to transfer set forth in this Law. In both cases however, the porty in favour of which such transfer has taken place shall replace the original investor in enjoying the provisions of this Law.

In all cases, shares offered in freely convertible foreign currency may be sold at the Egyptian Stock Exchange for freely convertible foreign currency in which case the proceeds of sales may be tranferred to the seller's account abroad.

Article 22 :

The Authority's approval of a project shall include specifying the rules for transferring the return on invested capital abroad, if so requested by the investor, in accordance with the following :

i. Projects realizing self sufficiency in their foreign currency needs, whose earning from visible or invisible exports cover all their requirements for imports of machinery, equipment, production inputs and materials, and payments for all foreign currency loans and interest thereon, shall be permitted to transfer their annual net profits determined at the highest rate prevailing and declared for freely convertible foreign currency within the limits of the credit balance of the foreign currency account authorised by the provisions of Article 14 of this Law ;

ii. Projects that are basically not export oriented, and that limit the country's need for imports, shall be permitted to transfer, in whole or in part, their net profits at the highest rate prevailing declared for freely convertible foreign currecy within the limits approved by the Authority and subject to the currency regulations in force ; and

iii. Net revenue on housing, the rentals of which are paid in freely convertible foreign currency, shall be transferable in full. Net revenue on housing the rentals of which are payable in local currency shall be transferable up to 5% per annum of invested capital. Projects for popular housing, and housing in new cities and outside the agricultural areas and the perimeters of existing cities shall be allowed to transfer net revenues up to 14% of invested capital. Reinvestment of revenue not transferable shall be permitted within an additional 8% per annum of invested capital and the funds reinvested under this provision in approved fields shall be considered as invested capital in the sense of the provisions of this Law.

CHAPTER TWO
JOINT VENTURES

Article 23 :

Joint ventures established under the provisions of this Law in the form of joint stock or limited liability companies shall specify in their articles of incorporation the names of their respective contracting parties, the legal form of the company, its name, purpose of activities, duration, capital, percentage of participation by Egyptian, Arab, and foreign parties, and methods of subscriptions.

Statutes of the company shall be patterned after the model issued by the Minister of Economy and Economic Cooperation on the basis of a proposal by the Board of Directors of the General Authority for Investment and Free Zones, taking into consideration the privileges, guarantees, and exemptions laid down in this Law.

In all joint ventures the General Authority for Investment and Free Zones shall have sole competence to review and approve, in compliance with the provisions of the present law, the articles of incorporation.

The signatures of all partners or shareholders on contracts relating to all projects whatever their legal status shall be endorsed against an endorsement fee of one quarter of one percent of the capital of the project to a maximum not exceeding one thousand Egyptian pounds (L.E. 1000) or its equivalent in foreign currency, as the case may be, whether such endorsement be carried out in Egypt or at an Egyptian representational office aboard. Contracts establishing a project and all contracts relating to a project including loan agreements, mortgages, purchases of real estate and machinery, construction contracting and other contracts shall be exempted from stamp duties, registration and publication fees until one year following the commencement of operations.

This provision shall also apply to projects established in the Free Zones.

Article 24 :

The statutes of joint stock companies formed under the provisions of this Law shall be promulgated by decision of the Minister of Economy and Economic Cooperation. Such companies shall enjoy a juridical personality as from the date of publication of their statutes and articles of incorporation pursuant to the executive regulations of this Law. The foregoing provisions shall apply to any amendment of the company's statutes.

CHAPTER THREE
GENERAL AUTHORITY FOR INVESTMENT AND FREE ZONES

Article 25 :

A General Authority, whose Board of Directors shall be under the Chairmanship of the Minister of Economy and Economic Cooperation shall be created and named «The General Authority for Investment and Free Zones» (herein referred to in this Law as «the Authority»). Its principle offices shall be in the city of Cairo, and it may maintain offices outside the Arab Republic of Egypt.

The Authority shall enjoy a juridical personality, and shall have a Board of Directors to be constituted by Decree of the President of the Republic.

The Board of Directors shall be the prevailing authority in all matters of the Authority, shall discharge its duties, and lay down the general policy that shall be pursued. It may adopt any resolution deemed to be conducive to the achievement of the objectives for which the Authority was created.

By Decree of the President of the Republic, a Deputy Chairman of the Board of Directors of the Authority shall be appointed who shall act as its Managing Director and preside over the executive body of the Authority, consisting of technical and administrative staff appointed in accordance with the organizational structure approved by the Board of Directors.

The Deputy Chairman of the Board of Directors shall direct the Authority, conduct its business, represent it in litigation and before third parties and preside over the Board in the Chairman's absence.

The Board of Directors may delegate to the Chairman or to the Deputy Chairman of the Authority part of its duties. The Chairman, Deputy Chairman and principal officers, approved by the Board shall have the right of signature on behalf of the the Authority.

Article 26 :

The Authority shall be competent to implement the provisions of this Law, more specifically, to perform the following :

i. Study the laws, regulations and resolutions in connection with Arab and foreign investment in the Arab Republic of Egypt and the Free Zones created therein, and submit such proposals as are deemed appropriate in this regard ;

ii. Prepare lists covering types of activities and projects in the participation of which Arab and foreign capital may be invited. Such lists shall be ratified by the Council of Ministers upon approval by the Authority's Board of Directors.

iii. Offer projects for investment by Arab and foreign capital and render advice in connection therewith and familiarize international capital markets and capital exporting countries with the approved lists and the projects offered for foreign investments plus the conditions and privileges enjoyed by incoming capital when invested within the country and the free zones to be established ;

iv. Review applications submitted by investors and report on such review to the Authority's Board of Directors for action thereon ;

v. Register incoming capital in terms of the original currency units, if in cash, and also to register and value capital participation in kind or in the form of intangible assets in the light of documents submitted, world prices and the opinion of specialized experts, and to review the valuation of the invested capital at the time of disposal or liquidation thereof for the purpose of repatriation or transference abroad ;

vi. Approve remittance abroad of net profits after examining the documents which reflect the project's financial position and ascertaining, in particular, that all reserves and allocations have been set aside pursuant to laws and standard accounting principles, and also that taxes have been paid upon the expiration of the period of exemption provided in this Law ;

vii. Facilitate procurement of permits necessary for executing Arab and foreign capital investment projects, including all necessary administrative permits, especially residence permits for businessmen, experts, and foremen recruited over seas for working in projects enjoying the provisions of this Law ; and

viii. To approve projects established with Egyptian capital and owned by Egyptian nationals in accordance with paragraphs (2) and (3) of Article 6 of this Law.

The executive regulations shall determine the rules and procedures under which the Authority shall perform its duties as described in this Law.

Article 27 :

Applications for investment shall be submitted to the Authority. An application shall specify the amount of capital to be invested, the nature thereof and any other such particulars as shall be required to indicate the form and nature of the project covered by the application. The Board of Directors of the Authority shall have the authority to approve applications submitted for investment. Such approval shall lapse if the investor shall fail to take serious steps to carry out the project within six months of approval, unless the Board shall grant renewed approval for such further period as it shall deem fit.

Article 28 :

The Authority shall have a separate budget prepared according to the rules customary in commercial enterprises, unrestricted by the provisions governing the budgets of public authorities and public coporations.

Article 29 :

The revenues of the Authority shall consist of the following :

i. Credits allocated by the State ;

ii. Revenues derived from its activities ;

iii. Charges for services rendered by the authority which may be received in freely convertible foreign currency pursuant to the rules and regulations adpoted by the Board of Directors : and

iv. Local or foreign loans when approved according to Law.

CHAPTER FOUR

FREE ZONES

Article 30 :

The Authority's Board of Directors may, upon approval by the Council of Ministers, establish public free zones for the location of projects authorized under the provisions of this Law. Each public free zone shall have a juridical personality.

By resolution of the Authority's Board of Directors, private free zones may be created exclusively for a single project. In all circumstances, the resolution shall indicate the location and boundaries of the zone.

The establishment of a free zone covering an entire city shall be by decree of law.

Article 31 :

The Authority's Board of Directors is the supreme authority controlling the affairs of the free zones and laying down the general policy to be pursued for which such zones have been created within the limits prescribed by this Law. More specifically, it may :

i. Coordinate policies and formulate the general planning of free zones in conjunction with the competent administrative authorities ;

ii. Acquire land, converting it to public or private free zones ;

iii. Approve budgets and closing accounts of free zones ;

iv. Assume the functions of the board of directors responsible for each public free zone as set forth in Article 33 hereof until the board of directors of such public free zone has been constituted ; and

v. Affiliate private free zones to a public free zone.

Article 32 :

The Authority's Board of Directors shall lay down the executive regulations which govern activities within the free zones from the financial, administrative and technical aspects specifically rules applicable to companies and projects operating within the free zones. It shall also lay down the rules governing ingress and egress registration of goods, examination of documents and auditing, controlling, policing the zone and collection of leviable dues.

Article 33 :

Each public free zone shall be directed by a board of directors which shall be constituted and its chairman appointed by resolution of the Authority's Board of Directors.

The board of directors of a public free zone shall be competent to implement the provisions of this Law and its executive regulations in all matters pertaining to such zone, more specifically, the following :

i. It shall authorize occupation of lands and real property or rental of real property owned by a third party in the free zone ;

ii. It shall decide on offers submitted by Arab and foreign investors according to the rules laid down by the Autority's Board of Directors ;

iii. It shall establish, operate, and exploit stores, warehouses, and areas for shipping, unloading and warehousing operations ;

iv. It shall provide machinery and equipment necessary for facilitating operations and projects created within the free zone ;

v. It shall provide such services as may be needed by the projects created in the free zone in return for charges to be fixed by the board ; and

vi. It shall supervise the private free zones affiliated thereto by resolution of the Authority's Board of Directors.

Article 34 :

Permits for the occupation of free zones or part thereof shall specify the purposes for which they were granted, the validity thereof and the financial guarantee paid by the licencee. Exemptions and privileges stipulated in this chapter may not be enjoyed except within the limits of the purposes indicated in such licence.

A licence for the occupation of a free zone shall be of a personal nature. The person in whose name a licence is issued may not assign all or part thereof or invite participation by a third party therein unless such is approved by the authority granting the licence.

Article 35 :

Licences in the free zones may be granted for the performance of the following :

i. Storage of transit goods, of indigenous goods destined for export on which taxes have been paid and foreign goods arriving without import duties, all without prejudice to the laws and regulations in force in the Arab Republic of Egypt in connection with goods circulation of which is prohibited ;

ii. Sorting, cleaning, mixing and blending, even with local goods, repacking and similar operations which adapt the condition of goods warehoused in the free zones to the requirements of trade, and processing such goods to meet market requirements ;

iii. Any manufacturing, assembling, mounting, processing renewing, or any other operations which need the advantage of a free zone to benefit from the country's geographical position ; and

iv. Engaging in any trade warranted by the activities within the free zone or intended for the comfort of the employees in the zone.

Article 36 :

With due regard to provisions in laws and regulations regarding the ban on the circulation of certain goods or materials, goods exported from or imported into, the free zone, shall not be subject to the normal customs procedures applicable to imports and exports nor to customs duties and other taxes and dues, save insofar as is provided for in this Law. Likewise all instruments, machinery, equipment and transportation equipment necessary to establishments authorized within such zone shall be exempted from customs duties and other taxes and dues.

The executive regulations of the free zones shall specify the procedures for moving goods from the moment they are unloaded until their arrival at the free zones and vice-versa.

Export and other taxes and duties shall be levied on local goods and material upon entering the free zone after completion of export formalities.

The Deputy Chairman of the Board of the Authority or any authorized chairman of the board of the public free zones may permit temporary entry of local goods into the free zone for repair or complementary operations thereon, provided that a customs tax shall be exacted in respect of the repair or complementary in compliance with customs regulations.

Likewise, the Authority's Deputy Chairman of the Board or any authorized chairman of the board of a public free zone may permit temporary entry of free zone goods into the country for repair or complementary operations thereon.

Article 37 :

Customs duties and taxes shall be payable in respect of goods withdrawn from the free zone for local consumption as though such were imported from abroad and in accordance with their condition after manufacturing, with due regard to rules and procedures governing imports. Such customs duties and taxes shall be payable on goods containing local components in proportion to the ad valorem value of foreign components contained in the manufactured products. Notwithstanding any of the foregoing, in the event that local components constitute 40% or more of the manufactured product, such dues as shall be payable in accordance with the provisions of this Article shall be reduced by 50%.

By way of exception, from import procedures, the Authority's Deputy Chairman of the Board, or any authorized chairman of the board of a public free zone, may permit withdrawal into the country of leftovers, ordinary containers, and empty receptacles after paying the customs duties and taxes due thereon.

He shall have the right to dispose of the above items at the expense of the party concerned should their continued presence in the free zone result in harmful effects on health or on discipline within the zone.

The Authority's Chairman of the Board or any authorized chairman of the board of a public free zone may authorize entry into the country of products not fit for export or scraps resulting from the manufacturing operations within the free zone, provided that the taxes and custom duties are paid thereon, on condition that no competition with national industries results.

Article 38 :

Goods entering the free zone shall be subject to no restriction as to the duration of their stay therein, nor shall imports into or exports from the free zone be subject to any import or export restriction.

Article 39 :

Employees of the Authority and free zones appointed by resolution of the Minister of Justice on the basis of a request from the Authority's Chairman of the Board shall possess the capacity of judicial officers within the limits of their functions. The Authority's Deputy Chairman of the Board, or any person so authorized, may request the public Prosecutor to authorize the judicial officers to inspect any part of the free zone or conduct investigations, whenever such is warranted.

Article 40 :

By exception to the provisions of Law No. 66 of 1963 enacting the Customs Code, the Customs Administration shall advise the chairman of the board of the free zone of any cases of unaccounted shortage, or surplus in the goods manifested in the bills of lading, whether in the number of packages or their contents or packed or loose goods if consigned to the free zone.

Responsibility for the cases specified in the preceding paragraph and percentages of allowances shall be regulated by resolution of the Authority's Board of Directors.

Article 41 :

Those authorized to operate under the provisions of this Chapter shall be liable for procuring insurance coverage for buildings, equipment, and machinery against all hazards. They shall also be bound to remove same at their own expense within such period as may be fixed by the chairman of the board of the free zone calculated from the date of expiration of their licences, unless the board of the free zone elects to purchase same therefrom.

Article 42 :

Entry into and residence in the free zones, as well as the introduction of Egyptian currency into and its withdrawal from, the free zones, shall be in conformity with the conditions and terms to be set forth in the executive regulations.

The regulations shall also fix the charges for occupying areas in which goods are deposited.

Article 43 :

Marine transport projects established in the free zones shall be exempted from the conditions concerning the nationality of the ship owner and crew stipulated in the Merchant Marine Code and in Law No. 84 of 1949 in connection with the registration of vessels. Likewise they shall be exempted from the provisions of Law No. 12 of 1964 establishing the Egyptian General Corporation for Maritime Transport.

Article 44 :

The free zones shall be subject to the provisions of Egyptian legislation where no special provision is made in this Law, more particulary the legislation governing health quarantine procedures, health fees, and protection of plants against epidemics and parasites. The Authority's Board of Directors shall lay down the implementing rules for the application of the provisions of such legislation within the free zones.

Article 45 :

Disputes arising between projects established in free zones, or arising between such projects and the Authority or any other authorities or administrative bodies connected with the business activities within the zone may be submitted, by agreement, to arbitration.

An arbitration board shall be constituted to decide on the dispute in accordance with the rules and pursuant to the measures stipulated in Article 8 hereof.

The arbitration board may also examine disputes arising between projects existing in the free zone and natural or juridical persons whether indigenous or alien, if such persons agree to refer the dispute to the arbitration board before or after it arises.

Article 46 :

Without prejudice to the provisions of this Law, projects established in the free zone, and dividends thereof, shall be exempted from the provisions of tax and duty laws in the Arab Republic of Egypt. Arab and foreign funds invested in the free zones shall likewise be exempted from inheritance taxes and death duties.

Nevertheless, such projects shall be subject to dues payable for services and to an annual duty not exceeding one percent (1%) of the value of goods entering or leaving the free zone for the account of the project. Such annual duty shall be determined by resolution of the Authority's Board of Directors. Trade in transit goods shall be exempted from such a fee.

Likewise, projects, the main activities of which do not require ingress or egress of commodities, shall be subject to an annual duty determined by the Board of Directors of the Authority, with due consideration for the nature and volume of activities and not exceeding three percent (3%) of the annual value added of the project.

Article 47 :

Payments subject to tax on income, such as wages, salaries compensation and the like paid by projects existing within the free zones to their expatriate employees shall be exempt from the general tax on income.

Article 48 :

Provisions of Articles 6 and 7 of this Law shall apply to the capital authorized to operate in the free zone.

Article 49 :

Transactions carried out in the free zone or between such zones and other countries shall not be subject to the provisions of exchange control laws.

Article 50 :

Companies with activities in the free zones shall not be subject to the rules stipulated in Laws No. 26 of 1954 and No. 73 of 1973 referred to above.

Statutes of the companies created in the free zones shall be patterned after the model formulated by the Minister of Economy and Economic Cooperation on the basis of a proposal submitted by the Authority's Board of Directors. The statutes of such companies shall be enacted by decree issued by the Minister of Economy and Economic Cooperation on the basis of a proposal sumbitted by the Authority's Board of Directors, and such companies shall enjoy a a jurdical personality from the date of publication of their statutes and artices of incorporation (1).

---

(1) This paragraph has been amended by Article 6 of Law 32 of 1977. (see below).

The above provisions shall apply to any amendment in the statutes of such companies.

Article 51 :

Provisions of Law No. 173 of 1958 requiring an Egyptian to obtain a permit from the competent authorities prior to taking up employment with foreign organizations shall not apply to Egyptian employees engaged by projects and establishments enjoying the provisions of this Chapter.

Article 52 :

No Employment may be taken up in the free zone except after obtaining a permit from the zone's chairman of the board under such terms and conditions as are specified in the executive regulations of the free zones and upon payment of a fee to be fixed in such regulation not to exceed a maximum of five hundred Egyptian pounds annually.

Article 53 :

Contracts of employment concluded with employees of Egyptian nationality shall be drawn in triplicate in the Arabic language, each party retaining a copy thereof and the third copy to be deposited with the administration of the free zones. Contracts shall specify the type of work, duration thereof, and the agreed wage thereof.

A translation of said contract may be appended in a foreign language

The employer shall file with the administration of the free zones a copy, translated into English or French, of each contract of employment concluded with expatriate employees within one week from the date the employee takes up employment.

Article 54 :

Projects established in the free zone shall develop opportunities and prepare appropriate training programs for the training of employees having Egyptian nationality in other that they may become skilled labourers.

Article 55 :

The executive regulations shall lay down, as the minimum level required, the rules applying to employees in the project authorized to operate in the free zones, more specifically the following :

i. Fixing the proportion of employees having Egyptian nationality :

ii. Fixing the minimum wages, provided they do not fall below the minimum wages applicable in the Arab Republic of Egypt ;

i. Fixing daily hours of work and weekly holidays, provided the hours of work may not exceed 42 hours per week ;

iv. Fixing overtime and rates therefore ;

v. Specifying the social and medical services to be rendered by the enterprises to their employees and the neseccary precautions to protect them during work :

vi. Specifiying the length of all kinds of vacations and wages payable in lieu thereof ; and

vii. Specifying the general principles of discipline, discharge and compensation of employees.

Article 56 :

Employees in projects performing activities in the free zones and with Egyptian nationality shall be subject to the provisions of the social insurance laws, unless the enterprise guarantees a superior insurance system approved by the General Organization for Social Insurance.

Article 57 :

Without prejudice to any more severe penalty provided for in any other Law, violation of the provision of Articles 42 and of this Law shall be punishable by imprisonment for a term not exceeding six months or a fine not less than five pounds and not exceeding two hundred pounds or both penalties.

Any person violating any other provisions contained in this Law or in the executive regulations of the free zones shall be liabe to a fine of not less than five pounds and not exceeding one hundred pounds.

No legal action may be brought in respect of the violations referred to in the preceding two paragraphs except upon request of the Authority's Chairman of the Board or any person authorized thereby. The Authority's Board of Directors or any authorized person appointed thereby may, in the course of litigation, effect conciliation as regards fines prescribed in this Law.

All fines ordered by a court in respect of offences against the provisions of this Law or paid by the violater by way of conciliation shall revert to the Authority.

ANNEX A

Law No. 32 of 1977 amending certain provision of Law No. 43 of 1974 concerning the investment of Arab and Foreign Funds and Free Zone.

In the name of the people.

The President of the Republic.

The People's Assembly has approved and issued the following Law :

(The provisions of Articles 1 — 4 have been incorporated in the preceding revised text of Law No. 43 of 1974, as amended by Law No. 32 of 1977.)

Article 5 :

In the event that the invested capital has already been transferred in part or in full to the Arab Republic of Egypt at the official rate according to the provisions of Law No. 43 of 1974, such capital may, either upon the agreement of the partners representing at least three fourths of the invested capital, or by a decision to the extent the amount so vanspere within of a special shareholders meeting, be revalued the limits specified by the provisions of Article 2 bis of said Law ; in such case, the project may increase the value of its shares or issue non-voting bonus shares in an amount equivalent to the difference resulting from such revaluation. Any such revaluation and issuance of shares shall be free of any taxes or fees. In the event that revaluation does not take place as authorized above, the value of the shares or the value of the amount that has been transferred, as the case may be, shall remain calculated at the official rate of exchange at which the tranfer took place. Thus, the proportion of participation in the profits as determined by that value when the project was approved shall remain the same without change thereon. Profits resulting from these shares, or from the amount that has been transferred thereof, as the case may be, shall be distributed in accordance with the proportion of participation based on such original valuation.

Article 6 :

The Minister of Economy and Economic Cooperation shall issue, upon proposal of the Board of Directors of the Authority, Model Articles of Incorporation for joint stock companies and limited liability companies for joint ventures established according to the provisions of this Law whether inland or in free zones. Project owners are not obliged to follow such Model Articles, insofar as their provisions do not relate to the Egyptian public order. Also, the principal bylaws of joint stock companies estabished, whether in land or in free zones, under the provisions of this Law, shall be issued by decree of the Minister of Economy and Economic Cooperation.

Article 7 :

All provisions of any law conflicting with the provisions of the said Law 43 of 1974 are hereby repealed.

Article 8 :

This Law shall be published in the Official Gazette and shall come into force from the date of its publication.

This Law is stamped with the State Seal and is executed as one of its Laws.

Signature of the President
June 5, 1977

Published in the Official Gazette on June 9, 1977.

APPENDIX C

Timetable and Application forms for participation in Cairo International Exhibition and Fairs.

First : International Exhibitions and Fairs In 1984

1 - Cairo International Fair 10-23 March.

Structure of Display :

General trade fair includes all kinds of developed exhibits in fields of production, activities and different services.

2 - Cairo International Exhibition of Building and Construction Equipment October

Structure of Display :

Equipment and machinery needed for building - means of transportation needed for the processes of construction like lorries and tractors - machinery needed for digging and paving roads - chemical products like plastic and rubber.

3 - Cairo International Exhibition of Furniture and Woodworking Machinery October

Structure of Display :

Complete room Furniture, separate units of the house furniture - kitchen, bathrooms, gardens furniture, beds, furniture and upholstery needs - machinery and equipment needed for the cutting, forming and treatment of woody furniture.

Second : International Exhibitions and Fairs In 1985

1 - Cairo International Fair March

2 - Cairo International Exhibition for Agriculture & Agricultural And Foodstuff Industries October

Structure of Display :

Agricultural crops, fruit and vegetables - products of agricultural industries and preserved food - equipment, implements and apparatus used in agricultural and animal products ... etc.

3 - Cairo International Exhibition for Irrigation and Land Reclamation October

Structure of Display :

Machines and equipment used in land reclamation, modern methods of irrigation and tiled - drainage.

4 - Cairo International Exhibition of packing Equipment. October

Structure of Display :

Machinery for wrapping - sealing bags - machines for counting - capping - sealing - labelling - marking.

Cardboard - wood and metal cases - barrels - containers for material handling ... etc.

Third : International Exhibitions and Fairs In 1986

1 - Cairo International Fair March

2 - Cairo International Exhibition For Hospital Equipment October

Structure of Display :

Operations and resuscitation rooms - medical apparatuses and equipment - xray films - furnishing.

3 - Cairo International Exhibition For Hotel Equipment. October

Structure of Display :

Furnishing - Laundry and miscellaneous - cafeteria, Bar - Heating, Conditioning, ventilation - Tableware - Sauna & swimming pool equipment ... etc.

4 - Cairo International Exhibition For Office Equipment and Electronic Computers October

Structure of Display :

Electronic and electrical calculators - machinery for communication and promoting information - equipment for printing - photography and microfilm and other exhibits of relation to this activity.

19the Session
CAIRO INTERNATIONAL FAIR
8 - 21 March 1986

Form 1
(Please type)
Deadline: 1 st. January 1986

Exhibitions Ground. Nasr City.
Cairo. Egypt.
Cable: Nefertiti - Cairo.
Telex: 92600 Fair UN

Application for Participation
(Foreign Exhibitors)

Exhibitor: ....

Nationality: ....

Address: ....

Cable: ....

Telex: ....

A/C No. and Name of Bank: ....

Type of activity ....

Producer Exporter Producer - Exporter

Exhibits:

Local agent (if any):

Space required: .... M2 indoors at US$ 70 per 1 sq. m.

.... M2 outdoors at US$ 35 per 1 sq. m.

Director of Pavilion: ....

Mode of Payment with consideration to the terms mentioned in the Invitation form:

— 25% of the rental with the application for participation.

— The balance plus 25% of rental as deposit within one month of space confirmation. Deposit shall be refunded after closure of the Fair and handing the site back to the Fair Authority.

— Payments are to be transferred to GOIEF's a/c No. 19857 Banque Du Caire, 19 Adly St. Cairo.

Submission of this application constitutes full commitment to the general conditions governing participation in international manifestations to be held in Egypt and all instructions issued by the Fair organizer or the managing authorities as well as of the customs, imports and monetary regulations in force and terms mentioned in the Invitation form.
Only companies listed in this application shall be included in the catalogue.

19th Session
CAIRO INTERNATIONAL FAIR
8 - 21 March 1986

Form 2
(Please type)
Deadline: 1 st. January 1986

Exhibitions Ground. Nasr City.
Cairo. Egypt.
Cable: Nefertiti - Cairo.
Telex: 92600 Fair UN

Application for Participation
(Agent)

Name of Agent in Arabic: ....
Name of Agent in English: ....
Address: ....
Cable: ....
A/C No. and Name of Bank: ....
Name of Director of Stand: ....
Name and Address of the Company you represent (Latin Letters).
(If you represent more than one company please attach a complete list with brief description of exhibits).
brief description of exhibits: ....
Required space: ....indoor M2 (US $ 70 per M2).
..........outdoor M2 (US $ 35 per M2).

Mode of Payment:
— 25% of the rental with the application for participation.
— The balance plus 25% of rental as deposit within one month of space confirmation. Deposit shall be refunded after closure of the Fair and handing the site back to the Fair Authority.
— Payments are to be transferred to GOIEF's a/c No. 19857 Banque Du Caire, 19 Adly St. Cairo.

Submission of this application constitutes full commitment to the general conditions governing participation in international manifestations to be held in Egypt and all instructions issued by the Fair organizer or the managing authorities as well as of the customs, imports and monetary regulations in force and terms mentioned in the Invitation form.
Only companies listed in this application shall be included in the catalogue.

19th Session
CAIRO INTERNATIONAL FAIR
8 - 21 March 1986

Form 3
(Please type)
Deadline: 1st February 1986

New Exhibitions Ground. Nasr City.
Cairo. Egypt.
Cable: Nefertiti - Cairo.
Telex: 92600 Fair UN

Registration in the Catalogue

Name of the Co. ....
Nationality: ....
Address: ....
Cable: Telex: ....
Type of activity - Exhibitor - agent - organizer.
Nature of exhibitor: exporter - importer - producer - wholesaler.

— The Director General of Publicity & Commercial Affairs.
— I would like to insert name, address, activity of my company/companies, and the list of exhibits in the official catalogue of the Fair

Best Regards

Date: Name: ....

Information about the exhibitors and participants will be registered in the Fair catalogue in accordance with the terms mentioned in the Invitation form and by which all participants should abide.

19th Session
CAIRO INTERNATIONAL FAIR
8 - 21 March 1986

Form 4
(Please type)
Deadline: 1st. February 1986

Exhibitions Ground, Nasr City.
Cairo. Egypt.
Cable: Nefertiti - Cairo.
Telex: 92600 Fair UN

Advertisement in the catalogue

1. Specifications of the Catalogue:

Size of page: 16 × 24 cm.
Cover: Bendacot: 250 gm.
Couchet: 100 gm.

Partitions: bristol.
Print: Offset or typographic
Language: Arabic and English edition.

2. Rates of Advertisement:

— Full page - black-white	US $ 590
½ page - black-white	US $ 360
Full Page - 2 Colours	US $ 670
Full page - 3 Colours	US $ 830
Cover	US $ 1000

A fiscal fee of 23% of total value of the advertisement shall be collected, plus one dollar as stamp duty on the publishing order.

Publishing Order

Name of Advertiser:
Address:
Cable: Telex:

The Director General of Publicity & Commercial Affairs.

I would like to place an ad (full page, ½ page, black-white, 2 colours, 3 colours) according to the a/m specifications and rates

I undertake to pay the value and fee as soon as the catalogue has been issued.

Best Regards

Signature

APPENDIX (D)

QUESTIONNAIRE LISTS

University of Strathclyde,
Department of Marketing,
Stenhouse Building,
173 Cathedral Street,
GLASGOW, G4 0RQ,
Scotland, U.K.

Questionnaire No. (1)

To be completed by the Executive Managers of British firms and their representatives operating in Egypt in order to assess the relevance of the Egyptian environment to foreign investment.

Please return the completed questionnaire to:

Mr. A.M. ABOU-KAHF

Part One - CV

1. Company's name and address:

2. Chief product or services:

3. Name of respondent:

4. Position of respondent:

Tel No:

Part Two
Reasons for investment overseas

This part aims to ascertain reasons for investment in Egypt to obtain a basis for overall comparison of the relative importance of each reason. Thus, it would be very helpful if you were to answer the following questions:

Q.1 Listed below are a number of reasons for investment abroad. Please rank in order of importance any of the following reasons which were relevant to your company's decision for investment in Egypt.

Reasons	Rank
I. Reasons related to Cost (please rank from 1 up to 5 reasons)	
1. Overcoming tariff barriers	
2. Lower cost conditions (eg transport, taxes, interest rates, labour, materials, etc).	
3. Incentives offered by the Government (eg. tax holidays, customs and duties relief etc).	
4. To take advantage of differences in technology and productivity, etc.	
5. Others (please specify): ____________	
II. Reasons related to Risk (please rank from 1-7)	
1. To ensure a continuous and secure supply of raw materials to the parent company.	
2. To protect patents, trademarks, etc.	
3. To avoid labour troubles or onerous national legislation at home.	
4. To diversify markets.	
5. Excessive competition in the home market.	
6. Host government's quarantees against non-commercial risks.	
7. Others (please specify): ____________	

Q.1 continued

III. Reasons related to sales and profit potential (please rank from 1-4)

1. To expand and develop new markets. ☐
2. To utilize excess capacity, comparative cost advantages, economies of scale, etc. ☐
3. Less competition or large market size existing in the host market. ☐
4. Others (please specify): ☐

____

IV. Reasons related to home government pressures (rank from 1-5)

1. Political factors. ☐
2. Home government's guarantee scheme for investment abroad. ☐
3. Home government's anti-trust legislation, making expansion difficulties at home. ☐
4. Home government's economic objectives (eg. to encourage exports, create new jobs, increase government revenue, etc.). ☐
5. Others (please specify): ☐

____

V. Reasons related to the host government pressures (rank from 1-4)

1. The growth of protectionist policies (tariffs and non-tariff barriers which restrict exports there). ☐
2. Privileges and incentives provided to incoming foreign companies by the host governments. ☐
3. Host Government guarantees against non-commerical risk. ☐
4. Others (please specify): ☐

____

Q.2 In your own opinion, what are the most important incentives, facilities and guarantees your company would like from the Egyptian government? (please rank in order of importance)

Incentives/Facilities offered	Rank
1. Tax exemptions and tax credits on exports from reinvested profits.	☐
2. Government sponsored credits/loans and capital incentives.	☐
3. Tariffs and customs reliefs on important exported goods and raw materials.	☐
4. Equality of treatment with domestic enterprises in terms of e.g. wages, schemes, taxation, etc.	☐
5. Non-discrimination against foreign ownership and control.	☐
6. Freedom from bureaucratic burdens.	☐
7. Freedom from restriction on employment conditions and managerial recruitment and gathering information, etc.	☐
8. Favourable conditions for the repatriation of profits and income, and repatriation of capital.	☐
9. Others (please specify): ____________________ ____________________	☐

Part Three

Strategies/paths for investment abroad and the criteria for selecting the strategies

The prime objective of this part is to find out the most common paths adopted for entering into overseas markets, and to assess the alternative methods of foreign market entry.

Q.3 Listed below are a number of alternative routes/strategies for entry into foreign markets. Please indicate the path which your company has adopted to enter the Egyptian market. (please tick one)

Paths/Strategies

An arrow ⟶ indicates progression to the next stage

1. Home operations ⟶ establishment of wholly-owned manufacturing plant or sales subsidiary abroad. ☐

2. Home operations ⟶ indirect exporting through, e.g. export houses ⟶ establishment of manufacturing plant abroad. ☐

3. Home operations ⟶ exporting via [agent or: [distributors or other [representatives

   and then ⟶ overseas sales or marketing subsidiary abroad ⟶ establishment of manufacturing plant abroad. ☐

4. Home operations ⟶ [licencing or: [international sub-contracting ⟶ [manufacturer contracts [assembly plants [turnkey operations [management contracts

   and then ⟶ establishment of wholly owned manufacturing or sales subsidiary abroad. ☐

5. Home operations ⟶ joint ventures with local enterprises (sales or manufacturing) ⟶ establishment of wholly owned manufacturing/sales abroad. ☐

6. If the above paths are not applicable to your company's own route or strategy in Egypt, please elaborate:

   ____

   ______________________________ ☐

Q.4 Could you please outline the reasons behind your company's choice:

Q.5 It has been suggested that the choice of overseas investment route/ strategy for a company is contingent upon numbers of variables. Would you please rank the following in order of importance:

		Rank
1.	Host country's political, economic and cultural environment.	☐
2.	Home country's pressures, local market competition at home, etc.	☐
3.	The number of overseas markets that are covered by the company and the company's degrees of penetration in each market.	☐
4.	The previous experience of the company with overseas markets.	☐
5.	The profitability of a given overseas market.	☐
6.	The importance of controlling the operations overseas.	☐
7.	Investment requirement and the company's capabilities (financial, personnel, technical, etc.).	☐

Q.6 In the light of the preceding questions, listed below are a number of factors, criteria and some considerations regarding the decision to invest abroad and the selection of the methods of entry into the Egyptian market (i.e. the levels of involvement, e.g. joint venture, exporting through agent, establishment of wholly-owned manufacturing/sales subsidiary, etc).
Please rank in order of importance the following criteria or factors that your company used or considered in selecting its method of entry into the Egyptian market.

Factors

I. Factors peculiar to your company (please rank 1-8) — Rank

1. The size of the company. ☐
2. The company's product line and its nature. ☐
3. The volume of foreign business desired. ☐
4. The competition in the overseas market. ☐
5. The company's previous experience of overseas investment. ☐
6. The company's financial, technical, personnel capabilities, etc. ☐
7. The company's comparative advantages over local firms or other foreign subsidiaries in the overseas market. ☐
8. Others (please specify):

____

______________________________ ☐

II. Factors relatively independent of the company and its industry (please rank from 1-4) — Rank

1. The number of foreign markets in which the company has representation. ☐
2. Investment requirements (funds, personnel, etc.) ☐
3. Marketing costs and the profit potential perceived to exist in the market. ☐
4. Others (please specify):

____

______________________________ ☐

Q.6 continued

III. The advantages of each method of entry (please rank from 1-4)

Rank

1. Flexibility to enable the company to cope with the changes in the market environment. ☐
2. Information, feedback and control over the operations. ☐
3. Exposure to foreign market problems (e.g. legislation, imposed curbs, etc.). ☐
4. Others (please specify):

   ____

   ______________________________________ ☐

IV. Factors peculiar to the Host Countries' environment and affecting the decision to invest or not. (please rank from 1-7)

Economic factors/determinants

Rank

1. The type and level of industrial activity in the host country. ☐
2. Market size. ☐
3. The extent of foreign investment which has already taken place. ☐
4. Labour costs and supply by quantity and quality. ☐
5. Commercial policies and trade restrictions including fiscal and monetary policies. ☐
6. Business system and its structure (e.g. availability of an adequate number of marketing institutions such as outlets and advertising agencies, types of the legal forms of organisations, banks, capital and stock market, etc.). ☐
7. Others (please specify):

   ____

   ______________________________________ ☐

Q.6 continued

Please rank the following adverse political - legal factors/determinants in order of importance, making investment difficult.

Rank

1. Fractionalization by language, ethnic groups and political factions, etc. ☐

2. Attitude towards foreign investment and the past and present record of such investment. ☐

3. Social conditions including extremes in population density, distribution of wealth, etc. ☐

4. Violence, strikes and frequency of social conflicts in general. ☐

5. Dependence of host country on a super power (economically, militarily, etc.) ☐

6. Restrictions on business, trading, etc., measures and the host government's degrees of interventions in business affairs and policies and the overall legal system. ☐

7. Past record of foreign investment expropriation, confiscation, etc. ☐

8. Others (please specify);

____

______________________________________ ☐

Please rank in order of importance the cultural factors/determinants which might favour foreign investment.

1. Language homogeneity. ☐

2. Religious homogeneity. ☐

3. Social values, habits, traditions, etc. ☐

4. Literacy level. ☐

5. Urbanization and transportation, communications, energy systems, etc. ☐

6. Managerial styles prevailing and the role and status of business executives. ☐

7. Others (please specify): ☐

____

Q.7 Please rank in order of importance the following factors affecting your company's decision to invest in Egypt.

	Rank
1. Economic factors.	☐
2. Political - legal factors.	☐
3. Cultural factors.	☐

Part Four

Environmental factors affecting marketing strategies

Q.8 Could you please indicate what are the greatest problems that you have encountered in the implementation of your marketing policies in Egypt.

Part Five

Company's records and profile

Q.9 Please indicate in general terms the benefits that you considered have been acquired by Egypt through the presence of your company there. (please rank from 1-6).

	Rank
1. Job creation, training nationals, etc.	☐
2. Import substitution and export earnings.	☐
3. Capital inflows.	☐
4. Technology, know-how, etc.	☐
5. Satisfying the needs of local markets.	☐
6. Others (please specify): ____________________	☐

Q.10 Could you please indicate the problems that you have encountered in terms of expanding your investment, and what types of facilities and requirement should be granted to enable you to implement your business and investment policies effectively in Egypt.

(a) Problems

(b) Facilities required

Q.11 If you feel that the preceding questions do not cover any aspect related to the present study, or if you would like to add any suggestions, please comment:

THANK YOU FOR YOUR CO-OPERATION AND TIME

University of Strathclyde
Department of Marketing,
Stenhouse Building
173 Cathedral Street
GLASGOW, G4 0RQ
Scotland, U.K.

Questionnaire No. (2)

To be completed by the Egyptian academic staff in order to explore the attitudes toward foreign investment and the role played by the foreign firms in terms of the economic and social development of Egypt; additionally, to assess some propositions relating to foreign investment policies in Egypt.

Part One: C.V.

(1) Name of the Academic Institution.

(2) Name of respondent.

(3) Position of respondent.

Part Two

Attitudes toward Foreign Investment

The major objective of this part is to highlight the attitudes toward foreign investment in Egypt. Thus, it would be very helpful if you were to answer the following questions:

Q1. ✓ In your opinion, are the overall effects of foreign investment on the Egyptian economic and social development generally:

(please circle one on the scale)

very positive positive don't know negative very negative ?

Q2. Listed below are a number of anticipated benefits of foreign investment in the host countries. Please indicate how important you regard each of the following benefits to Egypt.

	Very import-tant	Fairly import-tant	of some import-ance	of no import-ance
I. Economic Benefits:				
1. ✓ Foreign Capital inflow				
2. ✓ The Creation of new Job Opportunities and Utilization of the local skills, training, etc.				
3. ✓ The Stimulation of Competition with the Local Firms.				
4. Import Substitution and Export Earnings.				
5. The Creation of new foreign markets and commercial links				
6. ✓ The provision of new products and services to respond to the needs of Local Consumers				

Q2 (Cont'd)

		Very import-tant	Fairly import-tant	Of some import-ance	Of no import-ance
7.	The Development of Local Resources, depressed areas, and the encouragement of local entrepreneurs.				
8.	The expansion of the Egyptian industrial base.				
9.	Others (please specify):				
II.	<u>Technology Transfer</u>				
1.	Replacing outdated, small-scale local industries with more up-to-date advanced large scale industries.				
2.	Training indigenous manpower.				
3.	Transferring new managerial skills, and know-how, etc.				
4.	The contribution to local R&D efforts.				
5.	Providing new patents, technical know-how, etc.				
6.	Others, (please specify):				
III.	<u>Cultural and Socio-political benefits:</u>				
1.	The provision of political, financial and military aid by the foreign firms' national government.				
2.	Foreign investment providing visible and tangible symbols of growth and progress.				
3.	The development of new tastes, habits, new ways of life, etc.				
4.	Others, (please specify):				

Q3. Please rank the following broad areas of benefits of foreign investment to Egypt in order of importance.

(Please rank from 1 up to 3)

	Rank
1. The economic benefits	( )
2. The technological benefits	( )
3. The cultural and socio-political benefits	( )

Q4. Listed below are a number of undesirable activities, conflict areas and possible problems of foreign investment as channelled by the foreign firms in Egypt. Please rank some of the following types of influences and activities of the foreign firms in Egypt in order of importance.

I. Economic Influences (please rank from 1 up to 13):

		RANK
1.	Foreign firms create monopoly and economic domination.	( )
2.	Foreign firms compete with the local firms in terms of exporting opportunities.	( )
3.	Foreign firms cause a bad industrial 'mix' by producing luxury goods.	( )
4.	Foreign firms act frequently in ways contrary to the national interests.	( )
5.	Foreign firms result in a foreign exchange drain and influence the balance of payments.	( )
6.	Foreign firms cause an economic dependence on other nations.	( )
7.	Foreign firms exploit local resources, local capital, local skills to the best of their interests only.	( )
8.	Foreign firms produce and sell products for which their home market is declining.	( )
9.	The activities/presence of foreign firms cause a loss of control over national planning and disturbs national legislations and regulations.	( )
10.	Foreign firms disrupt local working conditions.	( )
11.	Foreign firms attract the indigenous skills from the local enterprises.	( )
12.	Foreign firms displace national investors.	( )
13.	Others (please specify):	( )

II. Technological Influences (please rank from 1 up to 9):

1.	Foreign firms are reluctant to adapt and promote technology to meet the local requirements.	( )
2.	Foreign firms widen the technology gap between their home country and Egypt through bringing in out-dated technology.	( )
3.	Foreign firms do not train, promote Egyption nationals to top managerial positions.	( )
4.	Foreign firms do not contribute significantly to the National Industrial Training, R & D, programmes etc.	( )
5.	Foreign firms cause, and lead to, a technological dependence on foreign countries and impair local innovations.	( )
6.	Foreign firms may be transferring knowledge, know-how which already exists locally.	( )
7.	Foreign firms' royalty licensing costs are too high.	( )
8.	Foreign firms bring in advanced technology which does not conform the local skills or serve the national objectives.	( )
9.	Others (please specify):	( )

Q4. (Cont'd)

		RANK
III.	Cultural and socio-political influences (Please rank from 1 - 7)	
1.	Foreign firms disturb national culture and values, ways of life and tastes, etc.	( )
2.	Foreign firms bring in unacceptable business practices (e.g. bribes).	( )
3.	Foreign firms insist on the use of their own language.	( )
4.	Foreign firms interfere and disrupt the national political climate.	( )
5.	The presence of foreign firms enhances the political tension.	( )
6.	Foreign firms do not respond to the local cultural interests.	( )
7.	Others (please specify):	

Q5. In the light of the possible disadvantages listed in preceding questions, which of the following broad areas of influences of foreign investment on your country and sovereignty has to be considered in order of importance.

(Please rank from 1 up to 3):

	Areas of influences	RANK
1.	Economic influences	( )
2.	Technological influences	( )
3.	Cultural and socio-political influences	( )

Part Three

Suggestion for Prospective Development

The prime concern of this part is to examine some suggestions by which Egypt can enhance the gains potential provided through foreign investment and eliminate the adverse effects of such investment on the national economic development. Thus, please answer the following questions:

Q6. Listed below are a number of prospective actions, please indicate the extent to which you agree and disagree with the following types of potential development actions:

	Strongly Agree	Agree	Un-certain	Disagree	Strongly Disagree
I. Require all foreign firms to:					
1. Export a specified percentage of production to sustain the balance of payments.					
2. Spend a certain percentage of their annual income in the areas of training, R & D, etc.					
3. Prohibit wage differentials between nationals and foreign workforce.					
4. Provide a certain percentage of local nationals at every level.					
5. Limit amount of annual profits, salaries, etc. repatriated to their home.					
6. Re-invest a certain percentage of annual profits in Egypt.					
7. Provide up-to-date technological level.					
8. Limit exports of products which are urgently required by the Egyptian economy.					
9. Purchase equipment, raw materials, parts, etc. from local suppliers as available.					
10. Assist local entrepreneurs by increasing their share in the investment venture.					
11. Get the location right and produce product respond to local needs.					
12. Respect national legislations, regulations, etc.					
13. Others (please specify):					

	Strongly Agree	Agree	Un-certain	Disagree	Strongly Disagree
II. Require our Government to:					
1. Allow foreign investors to enter into the heavy and strategic industries.					
2. Allow 100% ownership of foreign subsidiary.					
3. Diversify the policies of foreign investment, (i.e. permit other forms apart from joint ventures).					
4. Establish technical units to screen the level and types of technology brought in by the foreign firms.					
5. Direct foreign investors into the desirable economic sectors and reserve certain industries for its own monopolies or for local investors.					
6. Eliminate as much as possible any bureaucratic and non-productive procedures.					
7. Establish an Investment Review Board and pilot Units to follow-up the project after approval.					
8. Require foreign firms to use the local resources and national endowments.					
9. Study investment proposals and attempt to predict their potential impact on the balance of payments in the light of objective criteria. (E.g. % use of potential exports or imports substitution, % of local borrowing vs the external, etc.).					
10. Publicize investment opport-unities abroad.					
11. Provide clear rules and comprehensive information to the foreign investors.					
12. Link and differentiate the incentives, privileges,etc., that shall be granted to the foreign investors on the basis of e.g. types of investment project geographic areas, capital inflow vs capital outflow, etc.					
13. Others (please specify):					

Q7. It has been suggested that:

1. The state-owned enterprises should be granted the same privileges and incentives which have been offered to the foreign firms to enable the first to be more competitive vs the latter.

   a. Do you agree?

   Yes ☐

   No ☐

   Not sure ☐

   b. Please elaborate your answer:

2. The Egyptian government can control effectively the foreign firms' activities in Egypt.

   a. Do you agree?

   Yes ☐ Please go to 3.

   No ☐

   Not sure ☐

   b. If not, why?

3. The form of foreign presence, i.e. whether as a Joint Venture, wholly owned subsidiary, licensing or consultancy, is a significant factor as the size of the investment. Thus, the host government could allow foreign investors to establish a wholly-owned subsidiary as long as it has been already admitted foreign investment whether in a form of Joint Venture, licensing, etc.

   a. Do you agree?

   Yes ☐ Please go to Q.7

   No ☐

   Not sure ☐

   b. If no, please comment.

Q7. (Cont'd)

4. The benefits which can be gained through foreign investment are contingent upon e.g. the size of invested capital, the types of investment projects, the types (forms) of foreign investment strategies or policies allowed to the foreign investors, the relevance/viability of the host country's economic and political, as well as cultural environment, etc.

   a. Do you agree?

   Yes ☐

   No ☐

   Not sure ☐

5. The impact of foreign investment on the Egyptian economic and social development is contingent upon the government's control and direction of foreign firms and their activities.

   a. Do you agree?

   Yes ☐

   No ☐

   Not sure ☐

   b. If no, please comment.

6. Finally, it has been suggested that:

   (a) The Egyptian economic climate (as measured by e.g. market size, geographic location, financial commitment, natural and human resources, etc.) is able to serve effectively foreign investment compared with many of the Third World countries.

   Do you agree?

   Yes ☐

   No ☐

   Not sure ☐

Q7. 6. (Cont'd)

(b) The Egyptian political climate (as measured by e.g. the possibility of internal unrest, political factions, violence, foreign boycott, etc.) is generally stable compared with many of the Third World countries.

Do you agree? Yes ☐

No ☐

Not sure ☐

(c) The Egyptian cultural climate (as measured by e.g. level of literacy, number of educated people, mass media availability, etc.) will enable to respond and serve effectively the foreign firms activities in Egypt.

Do you agree? Yes ☐

No ☐

Not sure ☐

Q8. If you feel that the preceding questions do not cover any important aspect related to the present theme, please comment.

Thank you for your cooperation and time.

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173 Cathedral Street,
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Scotland, U.K.

Questionnaire No. (3)

To be completed by the Executive Managers of the Egyptian state-owned enterprises in order to ascertain the impact of foreign investment on their performance. Additionally, the intention is to underline how the state-owned enterprises can react to and cope with the potential for competition.

Part One: CV

1. Company's name and address:
2. Company's chief product:
3. Name of respondent:
4. Position of respondent:

Tel No:

Part Two
Foreign Investment Impacts

The prime objective of this part is to highlight the major influences of foreign investment on your company's performance and policies. Thus, it would be very helpful if you were to answer the following questions:

Q.1 In your opinion, are the overall effects of foreign investment on the Egyptian economic and social development generally: (please tick one)

very positive | positive | don't know | negative | very negative ?

Q.2 Could you please indicate which of the following problems you have encountered over the last five years which you can attribute to foreign investment.
(please tick all that apply and rank in order of importance)

I. In respect of Production, the presence of foreign firms may cause: Rank

1. A shortage of raw material, machinery, parts, etc. ☐
2. A shortage of technicians, skilled workers, etc. ☐
3. Surplus capacity due to (1) and (2). ☐
4. Others (please specify): ☐

____

II. In respect of Marketing:

1. Causing a decline of the company's market share in general ☐
2. Intensive/excessive competition in terms of product quality, price, etc. ☐
3. Shortage of sales force because of competitive recruitment ☐
4. Shortage of number of distribution channels and outlets ☐

5./...

Q.2 continued

5. Increase in advertising costs and promotional effort.
6. The loss of professional marketing managers to the foreign companies.
7. Others (please specify):

____

III. Personnel:

1. Shortage of Egyptian personnel and managerial skills.
2. Dissatisfaction with working conditions and climate.
3. Others (please specify):

____

IV. Finance:

1. Shortage of Local Capital and foreign exchange.
2. Increased interest rates because of borrowing by foreign companies.
3. Others (please specify):

____

Q.3 Have any conflicts arisen between your company and any foreign firms operating in Egypt since 1974 in respect of:

1. The location of foreign firm.
2. Sources of the raw materials.
3. Labour relations, recruitment, etc.
4. Infrastructural facilities.
5. Implementation of the advertising and promotional programmes.
6. The use of mass media.
7. Pricing policy.
8. The use of outlets, warehouses, distribution channels.
9. Others (please specify):

____

Q.4 After a period of five years (say 1989/90) could you please rank in order of importance what you believe will be the following broad areas of problems that your company will encounter as a result of the presence of foreign firms.

	Rank
1. Production problems.	
2. Marketing problems.	
3. Personnel problems.	
4. Financial problems.	
5. Import/Export problems.	

Part Three

Suggestions for Future Action

Q.5 Listed below are a number of suggestions by which the state-owned enterprises can react and cope with the competition potential or eliminate any negative impact of foreign investment.
Please indicate how important is each of the following suggestions.

Suggestions	Very important	Fairly important	Of some importance	Of no importance
1. Providing the state-owned enterprises the same privileges, incentives, etc. that have been granted to the foreign firms.				
2. More freedom from bureaucratic procedures and governmental measure.				
3. Merging the state-owned enterprises into joint ventures with foreign firms.				
4. More freedom regarding shaping the: - employment policy - pricing policy - reinvesting the profit and expansion plans - purchasing and procurement - financial policy - product policy - distribution and promotional policy				
5. Commercialization of all state-owned enterprises particularly those that relate to consumer goods.				
6. /...				

Q.5 continued

Suggestions	Very import-ant	Fairly import-ant	Of some import-ance	Of no import-ance
6. More efforts in the areas of Research and Development will enable the state-owned enterprises to be more competitive versus the foreign firms.				
7. State-owned enterprises should be limited only to heavy industries which have more importance to the economy.				
8. Providing export opportunities.				
9. Providing more freedom from importing measures.				
10. Foreign investment should be allowed to enter into industries/activities that: - provide intermediate goods, material services, etc. (to the state-owned firms) which are not available locally. - have no potential competition with the state-owned enter-prises. - characterized by capital and technological intensity in which the state-owned firms have no competitive advantages or ability for involvement.				

Q.6 If you feel that the above questions do not cover any important aspect related to the current foreign investment policies, or any suggestions for future development, please comment.

THANK YOU FOR YOUR CO-OPERATION AND TIME

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Scotland, U.K.

Questionnaire No. (4)

To be completed by the official representatives of the General Authority of Investment and Free Zones (GAFI) in the foreign countries (in collaboration with the Egyption-British Chamber of Commerce in the U.K.) in order to highlight the major limitations and obstacles that have been recognized in dealing with foreign investors.

Please return the completed questionnaire to:

Mr. A.M. ABOU -KAHF

Part One: C.V.

(1) Name of respondent:

(2) Address:

(3) Position of Respondent:

Part Two

Underlying the salient limitations and obstacles

The prime objective of this part is to explore the obstacles and limitations which you have encountered and experienced either in dealing with or reaching the foreign investors. Thus, it would be very helpful if you were to answer the questions below:

Q1. Could you please, indicate the major obstacles that you have encountered in terms of dealing and reaching the foreign investors.

Q2. Have you discussed any problem with foreign investors with regard to their investment projects/proposals in Egypt?

Yes ☐

No ☐

Q3. If yes, please elaborate.

Q4. Do you have any plan that has previously been determined in terms of promoting and attracting the foreign investors for investment in Egypt?

Yes ☐

No ☐

Please elaborate your answer.

Q5. Could you please indicate the types of facilities and requirement should be granted (by GAFI) to enable you to implement your activities effectively.

Q6. If you feel that the preceding questions do not cover any important aspect related to your relationships with GAFI and the foreign investors, or if your would like to add any suggestions, please comment.

Thank you for your cooperation and time.

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Scotland, U.K.

Questionnaire No. (5)

To be completed by the Senior decision makers of GAFI in collaboration with the General Organization for Industrialization (GOFI) to ascertain facts about the present practices and achievement of the national foreign investment policies.

Part One: C.V.

(1) Name

(2) Position of Respondent

GAFI/GOFI

Part Two

This part aims mainly at ascertaining facts in respect of the current practices and performance of Egyptian foreign investment policies. Additionally, the intention to explore the major issues which have encountered the implementation of present policy. Thus, it would be very helpful if you were to answer the following questions:

Q1. What are the main methods that GAFI employed to reach the foreign investors and promote the investment opportunities?

(Please tick all that apply).

	Always	usually	some times	rarely	never
1. Advertising through international press/magazines					
2. Visits abroad.					
3. Sponsoring visits for the investor to Egypt.					
4. Personal contacts.					
5. Agents and trades unions abroad.					
6. GAFI's representatives abroad.					
7. Conferences held abroad and locally.					
8. Local advertising.					
9. Direct mail to foreign companies.					
10. Others (please specify):					

Q2. Could you please indicate the greatest problems and difficulties that have encountered the implementation of the foreign investment policy since 1974.

Q3. Could you please indicate approximately:

a. The number of export-oriented projects: ( )

b. The number of foreign projects which have been exempted from local partnership. ( )

Q4. Are there any political considerations behind the restrictions imposed on the establishment of a foreign owned-subsidiary?

Yes ☐

No ☐

Not sure ☐

Q5. Could you please indicate the major reason behind the tendency of both national and foreign investors to establish storage and servicing projects rather than manufacturing plants in the free zones.

Q6. If you would like to add any comments or suggestions on the issue of foreign investment, please do so.

Thank you for your cooperation and time.

APPENDIX (E)

TABULAR MATERIAL OF THE FIELD RESEARCH

Table (1) Responses and order in which the BHNCs' motivation or reason for investment decision in Egypt was cited.

(Number of respondents/firms [N] = 19)

Reason/Motivation	Order in which reason was cited						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Number of Responses						
I. Reasons related to Costs:							
Overcoming tariff barriers	1	2	2	4	1	-	-
Lower cost conditions (eg. transport, taxes, interest rates, labour, raw material, etc.).	4	2	5	1	1	-	-
Incentives offered by the government (e.g. tax holidays, customs, and duties relief, etc.).	5	6	2	2	-	-	-
To take advantage of differences in technology and productivity, etc.	4	3	2	4	1	-	-
Others	-	-	-	-	-	-	10
II. Reasons related to risk:							
To ensure a continuous and secure supply of raw materials to the parent company	2	1	-	-	3	4	-
To protect patents, trademarks, etc.	1	1	-	2	2	-	2
To avoid labour troubles or onerous national legislation at home	1	-	3	2	2	1	-
To diversify markets	8	5	2	-	-	-	-
Excessive competition in the home market	1	7	3	2	-	-	1
Host government guarantees against non-commercial risks	3	1	2	2	-	2	1
Others	-	-	-	-	-	-	3
III. Reasons related to sales and profit potential:							
To expand and develop new markets	12	3	1	1	-	-	-
To utilize excess capacity, comparative cost advantages, economic of scale, etc.	1	6	7	-	-	-	-
Less competition or large market size exisitng in the host country	6	5	4	1	-	-	-
Others	-	-	-	-	-	-	8
IV. Reasons related to home government pressures:							
Political factors	2	1	2	2	1	-	-
Home government's guarantee scheme for investment abroad	2	7	2	-	-	-	-
Home government's anti-trust legislation making expansion difficulties at home	-	-	2	4	1	-	-
Home government's economic objectives (eg. to encourage exports, create new jobs, increase government revenue, etc).	9	3	2	-	-	-	-
Others	-	-	-	-	-	-	3
V. Reasons related to the host government pressures:							
The growth of protectionist policies (tariffs adn non-tariffs barriers which restrict export there)	1	4	5	3	-	-	-
Privileges and incentives provided to incoming foreign companies by the host government	5	6	2	1	-	-	-
Host government guarantees against non-commercial risk	8	2	1	1	-	-	-
Others	-	-	-	-	-	-	3
Total Responses	76	65	49	32	12	7	30

Table (2). Marketing/economic factors affecting the BMNCs' decision for investment in Egypt.

(N=19)

Factor	Order in which a criterion or factor was cited						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Number of responses /firms						
The type and level of industrial activity in the host country	3	6	7	1	-	-	-
Market Size	13	3	2	-	-	-	-
The extent of foreign investment which has already taken place	1	4	3	8	1	1	-
Labour costs and supply by quantity and quality	-	2	3	3	4	5	-
Commercial policies & trade restrictions including fiscal and monetary policies	2	3	2	6	3	-	-
Business system and its structure (e.g. availability of an adequate number of marketing institutions such as outlets and advertising agencies, types of legal forms of organizations banks, capital and stock market, etc.)	-	1	3	5	4	2	-
Others	-	-	-	-	-	-	4
Total Responses	19	19	20(*)	23(*)	12	8	4

(*) Over 19 because of multiple responses.

Table (3) Political factors influencing and/or considered by the BMNCs' decision for investment in Egypt

(N=19)

Factor	Order in which a factor was cited							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Number of responses/firms							
Fractionalization by language, ethnic groups and political factions, etc.	-	1	1	2	3	4	2	-
Attitudes towards foreign investment and the past and presnet record of such investment	4	3	3	5	1	-	1	-
Social conditions including extremes in population density, distribution of wealth, etc.	2	1	3	-	3	4	1	-
Violence, strikes and frequency of social conflicts in general	2	3	3	1	2	-	3	1
Dependence of host coutnry on a spuer power (economically, militarily, etc.)	1	3	-	2	3	1	3	-
Restrictions on business, trading, etc. measures and the host ogvernment's degree of interventions in business affairs and policies and the overall legal system	7	3	2	4	1	-	-	-
Past record of foreign investment expropriation, confiscation, etc.	2	3	5	3	1	3	-	-
Others	-	-	-	-	-	-	-	1
Total number of responses	18	17	17	17	14	12	10	2

Table (4) Socio-cultural determinants considered and/or used by BMNCs re - their decision for investment in Egypt.

(N=19)

Determinant/factor	Order in which a factor was cited (1)	(2)	(3)	(4)	(5)	(6)	(7)
	Number of resposnes/firms						
Language homogeneity	2	4	2	2	3	2	-
Religious homogeneity	-	1	4	-	3	4	1
Social values,habits, traditions,etc.	1	3	4	5	1	1	-
Literacy level	2	-	4	5	1	3	-
Urbanization and trasnportation, Communications, energy system, etc.	10	4	-	-	2	-	1
Managerial styles prevailing and the role and status of business executives	6	4	1	2	3	1	-
Others	-	-	-	-	-	-	2
Total responses	21(*)	16	15	14	13	11	4

(*) Total responses exceed 19 because of multiple responses.

Table (5) Factors and considerations regarding the decision of BMNCs' decision selection of the forms/methods for investment in Egypt.

(N=19)

Factor	Order in which a factor or criterion was cited (1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Number of responses							
I. Factors peculiar to the company:								
The size of the company	-	-	2	3	3	3	4	-
The company's prdouct line and its nature	3	1	-	2	3	2	2	-
The volume of foreign business desired	5	2	-	3	1	1	2	-
The competition in the overseas market	1	1	2	3	5	3	1	-
The company's previous experience of overseas investment.	3	3	5	2	2	3	-	-
The company's financial, technical, personnel, capabilities, etc.	5	4	4	2	-	1	-	-
The company's comparative advantages over local firms or other foreign subsidiaries in the overseas market	1	6	5	1	1	1	1	1
Others	-	-	-	-	-	-	-	3
Total Responses	18	17	18	16	15	14	10	4
II. Factors relatively independent of the company and its industry:								
The number of foreign markets in which the company has representation	4	6	6	2	-	-	-	-
Investment requirements (funds, personnel,etc).	4	6	8	-	-	-	-	-
Marketing costs and profit potential perceived to exist in the market	11	5	2	-	-	-	-	-
Others	-	-	-	-	-	-	-	5
Total responses	19	17	16	2	-	-	-	5
III. The advantages of each method of entry:								
Flexibility to enable the company to cope with the changes in the market environment	10	5	2	-	-	-	-	-
Information, feedback, and control over the operations	4	6	6	-	-	-	-	-
Exposure to foreign market problems,(e.g. legislation, imposed curbs, etc.)	5	7	4	1	-	-	-	-
Others	-	-	-	-	-	-	-	4
Total no. of responses	19	18	12	1	-	-	-	4
Grand total responses (I + II + III)	56	52	46	19	15	14	10	13

Table (6) Factors affecting the choice of overseas investment route/strategy: The BMNCs viewpoints

(N=19)

Factor	Order in which a factor was cited						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Number of responses						
Host country's political, economic and cultural environment	8	5	6	-	-	-	-
Home country's pressures, local market competition at home, etc.	-	2	2	4	1	2	4
The number of overseas markets that are covered by the company and the company's degree of penetration in each market.	2	3	4	-	4	2	3
The previous experience of the company with overseas markets	4	1	1	6	3	4	-
The profitability of a given overseas market	5	4	2	5	1	-	2
The importance of controlling the operations Overseas	-	4	1	2	6	2	2
Investment requirement and the company's capabilities (financial, personnel, technical, etc.)	4	4	2	1	1	5	2
Total responses	23(+)	13	18	18	16	15	13

(+) N.B. Total responses do not equal 19 because of multiple responses.

Table (7) The attitudes of the executive managers of the state-owned enterprises towards the overall effects of FDI on the economic and social development

(N=30)

Sectors surveyed	Very Positive		Positive		Don't Know		Negative		Very Negative	
	No.(*)	%	no.	%	no.	%	no.	%	no.	%
Food & Beverages industries (1)	-	-	6	75	-	-	2	25	-	-
Spinning, weaving and garments manufacturers (2)	1	14	3	43	2	28	1	14	-	-
Others: of which export/import firms, construction and contractors firms, electronics and plastics industries, chemicals and metal industries (3)	2	13	11	74	-	-	2	13	-	-
All firms	3	10	20	67	2	6	5	17	-	-

(*) No. = number of responses

(1) Number of firms surveyed = 8

(2) Number of firms surveyed = 7

(3) Number of firms surveyed = 15

Table (8) Undesirable activities, conflict areas and possible problems of foreign investment as channelled by the foreign firms in Egypt: Economic influences.

Types of Influence	Order in which type of influence was cited													
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	Over
(1) Foreign firms create monopoly and economic domination	5	3	1	3	5	2	2	5	5	2	1	9	-	-
(2) Foreign firms compete with the local firms in terms of exporting opportunities	6	2	1	4	5	7	5	2	2	6	3	-	1	-
(3) Foreign firms cause a bad industrial "mix" by producing luxury goods.	7	9	5	1	5	6	2	2	3	2	2	-	-	-
(4) Foreign firms act requently in ways contrary to the national interests.	3	4	7	3	9	2	2	2	7	2	1	4	-	-
(5) Foreign firms result in foreign exchange drain and influence the balance of payments.	7	5	4	7	2	4	4	4	1	2	2	1	-	-
(6) Foreign firms cause an economic dependence on other nations.	6	9	5	3	4	6	5	7	-	1	-	1	-	-
(7) Foreign firms exploit local resources, local capital, local skills to the best of their interests only.	8	5	3	6	8	1	2	2	4	1	4	1	-	-
(8) Foreign firms produce and sell products for which their home market is declining.	4	3	5	5	-	4	2	5	3	5	6	2	-	-
(9) The activities/presence of foreign firms cause a loss of control over national planning and disturb national legislations and regulations.	2	3	4	2	1	4	6	2	6	3	7	3	2	-
(10)Foreign firms disrupt local working conditions.	1	5	3	5	2	4	3	5	4	6	3	4	-	-
(11)Foreign firms attract the indigenous skills from the local enterprises.	9	1	7	4	3	1	5	2	3	5	3	3	-	-
(12)Foreign firms displace national investors.	2	-	3	1	2	1	3	4	2	5	7	12	1	-
(13)Others:														
- foreign firms produce non-essential competition & reduce local savings.	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Responses	60	49	48	45	46	42	41	42	40	40	39	40	4	-

Table (9) Undesirable activities, conflicts areas and possible problems of foreign investment as channelled by foreign firms in Egypt: Technological influences.

Types of Influences	Order in which a technological influence was cited										
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	and 9 over		
1) Foreign firms are reluctant to adapt and promote technology to meet the local requirements.	19	7	5	3	6	5	2	-	1	-	-
2) Foreign firms widen the technological gap between their home country and Egypt through bringing in out-date technology	11	10	4	2	6	3	4	1	1	-	-
3) Foreign firms do not train, promote Egyptian nationals to top management positions.	3	11	9	7	8	4	2	-	-	-	-
4) Foreign firms do not contribute significantly to the national industrial training, R & D programmes, etc.	10	7	8	7	5	1	4	2	-	-	-
5) Foreign firms cause, and lead to a technological dependence on foreign countries and impair local innovations.	5	7	8	9	5	6	2	2	-	-	-
6) Foreign firms may be transferrign knowledge, know-how which already exists locally.	2	3	4	2	1	9	9	7	2	-	-
7) Foreign firms' royalty licensing costs are too high.	2	1	3	6	6	4	9	11	-	-	-
8) Foreign firms bring in advanced technology which does not conform the local skills or serve the national objectives.	1	5	4	3	6	7	4	11	3	-	-
9) Others:											
- Foreign firms bring in consumers' goods technology rather than the production and industrial one.				1							
Total Responses	53	51	45	40	43	39	36	34	7	-	-

Table (10) Undesirable activities, conflict areas and possible problems of foreign investment as channelled by foreign firms in Egypt: cultural and socio political influences

Type of Influence	Order in which an influence was cited							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	and over
1) Foreign firms disturb national culture and values, ways of life and tastes, etc.	18	6	6	5	4	5	2	-
2) Foreign firms bring in unacceptable business practices, (e.g. bribes)	7	7	9	11	4	4	-	-
3) Foreign firms insist on the use of their own language.	11	8	4	6	4	9	-	-
4) Foreign firms interfere and disrupt the national political climate.	4	7	6	9	6	7	3	-
5) The presence of foreign firms enhance the political tension.	5	3	9	2	13	8	1	-
6) Foreign firms do not respond to local cultural interests.	6	14	10	6	4	5	-	-
7) Others								
- Foreign firms cause social duality.(*)	-	-	1	-	-	-	-	-
Total Responses	51	45	45	39	35	38	6	-

* Mentioned by one respndent.

Table (11) The major problems have encountered the state-owned enterprises as attributed to FDI over the last five years (1978/79 - 83/84)

(N=30)

Problem	Order in which problem was cited						
	1	2	3	4	5	6	7
	Number of cases/responses						
I. <u>In respect of production:</u>							
1. A shortage of technicians, skilled workers, etc.	3	18	6	-	-	-	-
2. A shortage of raw material, machinery, parts, etc.	23	3	-	-	-	-	-
3. Surplus capacity due to (1) and (2).	-	7	20	-	-	-	-
4. Others	-	-	-	-	-	-	-
II. <u>In respect of Marketing:</u>							
1. Causing a decline of the company's market share in general	3	5	7	4	6	2	-
2. Intensive/excessive competition in terms of product, quality, price, etc.	16	2	2	6	-	1	-
3. Shortage of sales force because of competitive recruitment.	1	4	8	11	3	-	-
4. Shortage of number of distribution channels & outlets.	1	1	1	3	7	11	-
5. Increase in advertising costs and promotional efforts.	-	1	6	3	5	9	-
6. The loss of professional marketing managers to the foreign companies.	8	11	1	2	2	3	-
7. Others: - Surplus inventory(*)	-	-	-	-	-	-	1
III. <u>In respect of personnel:</u>							
1. Shortage of Egyptian personnel & managerial skills.	5	25	-	-	-	-	-
2. Dissatisfaction with working conditions & climate.	24	6	-	-	-	-	-
3. Others: - Disrupt the innovations efforts & personnel initiatives(*)	1	-	-	-	-	-	-
IV. <u>In respect of Finance:</u>							
1. Shortage of local capital & foreign exchange	9	21					
2. Increased interest rates because of borrowing by foreign companies	21	9					
3. Others	-	-					
Total Responses	116	113	51	29	23	26	1

(*) Stated by one respondent.

Table (12) The methods/forms of FDI adopted by the BMNCs to enter into the Egyptian market[1]

Method/Form	No. of Firms	Types/nature of activities
(1) Home operations —— establishment of wholly-owned manufacturing plant or sales subsidiary	4	Extractive industries (e.g. petroleum), oil exploration.
(2) Home operations —— indirect exporting through (e.g. export houses) —— establishment of manufacturing plant.	1(*)	Exporting and manufacturing consumer and industrial goods)
(3) Home operations —— Exporting via -[Agent or:- distributor or other representatives] —— overseas sales or establishment of marketing subsidiary/manufacturing plant	3*	- Exporting and manufacturing consumer goods, industrial materials and chemicals for construction. - Exporting (consumer and industrial goods)
(4) Home operations —— Licensing or: International sub-contracting, Manufacturing contracts, Assembly plants, Turnkey operations, Management contracts —— establishment of wholly-owned	6	- Consulting eng. & construction services - Mech., electr. & construction industries - Beverages industries - Manufacturing oil equipments
(5) Home operations —— Joint ventures with local enterprises (sales or manufacturing —— establishment of wholly-owned manufacturing/sales subsidiary.	5	- Civil electr. engineering contractors. - Civil aviation services - Housing industries (constr. & recnstr.)
(6) Others	-	
Total no. of responses	19	

(1) Bold-face type form or route denotes to the form adopted by the firms concerned to enter into the Egyptian market.

(*) Now they undertake investment projects on the basis of joint venture with private partners.

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