

PROMOTING COMPETITIVE MARKETS
IN DEVELOPING ECONOMIES (The Case of Egypt)

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EXECUTIVE SUMMARY

The study is a part of a larger research program undertaken by IDRC to investigate the status of competition in six developing countries. The main aim of the study is to investigate whether the economic reforms undertaken in the 1990s have led to increased competition in the form of inter-firm rivalry or not. The time period on which the study focuses is between 1990 and 2004, however in many cases the time period is extended to 2005 whenever data permit, and in some cases it is shortened to before 2004 if data is not available. The main theme of the study tries to investigate whether economic reforms undertaken on both macro and micro levels have led to enhance competitive markets or economic reforms have left aside the issue of competition. Moreover, we investigate whether in the case of privately dominated markets there have been mechanisms which led to enhanced competition if the government has failed to introduce such pro-competitive measures or such mechanisms have been absent. We intend to provide some policy suggestions on how to improve the competition environment in the markets that have failed to include elements of competition. Along the study, two hypotheses are investigated, namely, the hard budget constraint has a negative impact on competition and free trade has a positive impact on competition. The study is divided into five main parts. Part I aims at delimiting the size of the private sector in Egypt. The data reveal that the size of the private sector has been increasing in relative terms as percentage of GDP over the 1990s. The privatization program adopted in the 1990s has been responsible for the main bulk of such increase in the size of the private sector. However such increase in the size of the private sector has not been always accompanied by increase in the status of competition. The fact that the government has remained controlling various sectors has decreased the expected rise in the degree of competition. This has been revealed by the various sectors investigated where the type of privatization affected the status of competition. In other cases, the government control has been replaced by high private concentration either in the form of monopoly or oligopoly hence having negative impact on inter-firm rivalry and competition.

Part II is devoted to the analysis of policies, rules and regulations that affect the status of competition in the Egyptian economy. Moreover, in Part II the role of quasi governmental bodies and regulatory bodies in affecting the status of competition and inter-firm rivalry is also investigated. Among the most important laws that affect competition is competition law, investment laws, special economic zones law, labor law, and small enterprise law, and trade regulations. The analysis showed that these laws are inefficient in enhancing competition in the Egyptian market for several reasons. The reasons ranged from absence of human capacity needed to implement effectively such laws, to lack of market data, to presence of provisions that encourage large size enterprises. Policies that affect competition were also analyzed. Such policies included trade policy, fiscal and especially tax policy, and monetary policy. The analysis of different policies pointed out that policies in general are not pro competition, where trade policy has remained restrictive, corporate taxes have remained relatively high. However, in 2004 a change in the government took place and the appointed cabinet undertook several expansiory policies in fiscal, and trade fields. The impact of such policies was not discussed in the study as no enough time has elapsed to discuss their impacts.. Finally the role of regulatory bodies in specific sectors has been relatively humble in enhancing competition and increasing inter-firm rivalry whereas quasi governmental bodies (e.g. governorates) have discretionary power which affects negatively the status of competition.

Part III is devoted to analyzing a number of different indicators related to competition environment in Egypt. Two types of data sets are used, the World Bank Doing Business which is employed to compare Egypt with other countries in the study; and national data to investigate the status of competition and private sector over time. The World Bank indicators identified several main points. Comparing Egypt with other countries, Egypt does not seem to be lagging behind on average. It is highly comparable with countries in the region as Jordan and Morocco, as well as other countries included in the overall study, and in many cases the indicators are highly similar to those of other advanced countries like South Korea.

As for the national indicators, it seems that the structure of the market is still dominated by the public sector though privatization has significantly decreased such dominance. The performance of the private sector in general improved in the period 1995 to 2004 when compared to the period 1990 to 1995 with the exception of the growth rate of value added. There is no consistency across the board either between the performance of different sectors or among the different indicators used. However, with regard to competition, it could be safely argued that most of the indicators on average point out that the degree of competition increased. However, increased competition was not necessarily correlated with better performance of the private sector using the different indicators shown. The most obvious example of a highly non competitive industry is the basic metal sector which performed well using different indicators although it remained relatively highly concentrated. In other words, the indicators used showed that economic efficiency of the sectors investigated are not related to the degree of competition prevailing in their markets where some sectors that are highly concentrated experienced good economic performance so as the case with highly competitive sectors. On the other hand, there have been sectors which performed in an inefficient manner from an economic perspective although they are highly competitive, so as the case with highly concentrated sectors.

Part IV is devoted to discussing three cases studies of anti-competitive behavior in details. The case studies were selected based on the public debate that they have been experiencing anti-competitive behavior. There were no actual cases raised, since there has been no Competition Law or Competition Authority (during the time of investigation as the Competition Law has been introduced in January 2005 and the Competition Authority has started functioning only in April 2006). The three cases include steel, cement and cinema industries. Each of the three cases is characterized by a different type of anti-competitive behavior. In the case of steel, there has been abuse of dominant position whereas in the case of cement there was collusion among firms forming some sort of a cartel. The case of film industry has been characterized by both anti-competitive behavior on the horizontal level in the form of abuse of dominant position as well as anti-competitive behavior on the vertical level. The three cases studies focus on different aspects including the impact on consumers, impact on producers, as well as the government interference, and impact of soft versus hard budget constraints and liberalization of trade policies.

In summary, the three case studies revealed that the steel and cement cases had negative impact on consumers whereas the cinema industry's effect was not clear. Moreover, in all the cases the budget constraint variable had an impact on the status of competition in the market whereas the trade liberalization did not impact the anti-competitive behavior.

Part V applies some econometric exercises to investigate the status of competition in the Egyptian market. The econometric analysis is heavily constrained by the availability of data, however we were able to reach some results, namely that inter firm rivalry (as proxied by increase number of private firms and entry of new firms) has a positive impact on exports. Moreover market openness as proxied by import penetration has a positive impact on exports. Moreover, entry of new firms is likely to have a positive impact on the achieving a better distribution of firms as reflected by GINI coefficient. The empirical analysis was not able to achieve any concrete results regarding the impact of more intensive competition of total factor productivity and higher price margin costs.

In general, the study showed that budget constraint has a significant impact on competition. The impact in some cases has been negative whereas in other cases has been positive in terms of enhancing competition and inter-firm rivalry, however in general a soft budget constraint where accessibility to undertaking independent and flexible financial decisions enhance competition and allow more inter-firm rivalry. The effect of free trade on the status of competition is minor and insignificant to a large extent though it has proven to be positive in some cases. The main reason behind the lack of strong positive impact of trade liberalization on the status of competition is that anti-competitive practices have rooted themselves in the Egyptian economy to the extent that free trade is not able alone to cure the roots of the anti-competitive behavior. This implies that liberalization and economic reform measures undertaken by the government are not sufficient to enhance competition. Rather additional measures need to be undertaken to ensure that a competitive environment prevails so as to ensure that the benefits of economic reform in terms of selling at marginal cost are passed to consumers. In general, the study showed as well that high concentration in the Egyptian different markets is not necessarily correlated with the status of competition. In some cases, there is high concentration and high level of competition whereas in other cases high concentration is accompanied by lack of competition.

OVERALL INTRODUCTION OF THE STUDY

Competition environment has gained increased importance in the last two years in Egypt. Several reasons were behind such increased attention which ranged from the increased anti-competitive behavior in several markets, to the urgency and pressure to enact the competition law. The lack of understanding on the effect of competition on producers and consumers in different markets has been the main driving force behind undertaking this study. The lack of studies on competition environment whether on the macro or sectoral level, accompanied by the urgency of such matter both on the policy as well as the economic research fronts were among the main motivations behind the initiation of the current study. The study focuses mainly on investigating the status of inter-firm rivalry in the Egyptian market and whether greater competition leads always to positive results for consumers and producers. Two hypotheses are investigated, namely, the hard budget constraint has a negative impact on competition and free trade has a positive impact on competition.

The study has two main objectives. The first is determining the size of the private sector in the Egyptian economy, while taking in consideration any changes that happened over time since the beginning of the 1990s. The second is investigating the degree of competition prevailing in the Egyptian market. We test two main hypotheses, the first is that restrictive trade policy has a negative impact on the degree of competition prevailing in the Egyptian market, and the second is that hard budget constraints of firms (mainly government controlled) have negative impact on competition. The study is undertaken within a larger IDRC research project that encompasses six countries, following to a large extent, the same methodology, and includes Brazil, India, Mexico, South Africa, and Argentina. The aim of the study is to investigate in depth the evolution of the change in size of the private sector and the related policies and institutions. Another important aspect of the study is that it assesses the role of quasi governmental bodies in controlling the performance of the private sector. Moreover, the study deals with the role of the regulatory bodies in controlling the behavior of the private sector whenever the privatization process has taken place. The study deals with different aspects of the market structures in different sectors, including manufacturing, and services.

The study is divided into five main parts: Part I deals with delimiting the scope of the private sector, where we provide an overview of the private sector in Egypt and try to estimate its size given the different indicators as size of firms, labor employed, etc. We deal in this part with the privatization process and how it affects the size of the private sector. Part II provides an overview of selected policies affecting markets where firms operate, whereas Part III benchmarks the private sector in Egypt with other countries included in the study. Part IV provides three case studies of the status of competition in steel, cement, and cinema industries. Finally, in Part V we undertake some econometric analysis to arrive at estimates of competition variables including markup, concentration, etc.

PART I: DELIMITING THE SCOPE OF THE PRIVATE SECTOR

Introduction

Egypt, as many other developing countries, has experienced an increase in the size of the private sector during the 1990s. The drive toward smaller government and more active private sector participation in economic activity is part of global trends (ERF, 1996). This drive stems mainly from the failure of the government in managing economic activities and the widening budget deficits which ultimately led to the failure of the government led strategy. Nevertheless, such increase in the size of the private sector has been subject to a number of limitations that need to be considered if we want to arrive at an accurate estimate of the size of the private sector in Egypt. The intention of Part I of the study is to shed light on the size of the private sector in the Egyptian economy. We intend to focus on the industrial sector, however we include the services and agriculture sectors whenever data permit. Moreover, we emphasize the cases where quasi governmental bodies exist, which neither qualify as pure public or governmental sector nor as pure private sector. In other cases, where the private sector exists, we identify its exercising of freedom in terms of taking decisions and not being subject to government rules and regulations. Finally, we provide some sectoral case studies that differentiate between the relatively high power executed by the private sector in some fields and other sectors where such power is relatively limited.

Part I of the study proceeds as follows; in Section One we provide an overview of the public versus private sector shares in the economy from a macro perspective. We include as well quasi governmental bodies that exist in Egypt and how they are related to the government and affect private sector performance. In Section Two we discuss the process of privatization in the Egyptian economy during the 1990s. Section Three provides some sectoral case studies. Section Four concludes and summarizes the status of the private sector in Egypt.

In Section Three we devote special attention to testing our two main hypotheses, namely trade liberalization does not enhance competition and increase inter-firm rivalry and, soft budget constraints enhance competition and inter-firm rivalry. By soft budget constraint we mean that there is autonomy in undertaking financial decisions without interference from the government. Moreover, there is a room for enjoying a budget that allows undertaking risky actions being backed up by sufficient collateral. By hard budget constraint we mean that there is constraints on using budget efficiently which either arises from continued government interference or small size of firm which does not have the sufficient collateral to undertake its independent decisions.

A number of new terms should be clarified at the beginning of this part to avoid confusion. The term public enterprise sector differs from public sector. In the conventional terminology both would mean the same thing, that is that they are owned and run by the government. In the Egyptian context, a public sector means that firms are owned and run by the government, but public enterprise is slightly different where as will be explained later in details, they follow a different law, controlled by a holding company, and are separated from the government budget. They are firms set to be privatized. Some of them are still not privatized, while others are wholly or partially privatized. The degree of government's involvement in their management differs to a large extent as will be explained later. Moreover, there are some specific terminology that need to be identified, that includes for example, the economic authorities, service authorities and the National Investment Bank.

Both economic authorities and services authorities are public authorities in charge of providing public services. The financial contributions of the government to these authorities are different although the pricing of public services is still controlled by the government. The services authorities are defined as a part of the government and consequently their budgets are completely incorporated in the consolidated government budget. Since early 70's, the economic authorities have separate budgets yet the central government budget still supports most of these authorities. Regarding the National Investment Bank (NIB), it is one of the specialized public banks on which the government relies to finance its public investment. On the other hand, Pension Funds transfers are the main source of the NIB deposits.

Section One: Overview of Public and Private Sectors from a Macroeconomic Perspective:

The size of the public sector declined significantly over the last decade whereas the size of the private sector increased. During the period 1991/1992 to 2001/2002 the relative share of the public sector in GDP decreased by ten percentage points, and experienced a reversed trend in the last two years identified as shown in Table 1a and Table 1b. Moreover, the sectoral distribution of the public versus private sector changed from one sector to another. In some of the sectors as commodity sectors, hotels and restaurants, and industry and mining there was a huge decrease in the size of the public sector (mainly due to privatization). In other sectors, the reduction in the size of the public sector was minor as the case of agriculture, where the private sector is the dominant sector, and electricity, where the public sector dominates this activity. Other sectors' structure did not change where it either remained dominated by the public sector as public utilities or by private sector as personal services. It was only in the construction and building sector where the size of the public sector increased significantly. The data presented underestimate the size of the public sector to a certain extent. In relation to GDP, the underestimation arises because the national income accounts do not include grant-financed military expenditures, which constitute about 3 percent of GDP. Also, the joint-venture companies in the industrial sector (about 184) are classified as private sector, whereas in reality some of them are majority owned or controlled by the public sector.

There exist various categories of economic participants within Egypt's private sector. On one end of the size spectrum, formal medium and large enterprises enjoy a high degree of protection, get all the institutional private credit, use relatively advanced technologies and management, make most of the country's private investment, deliver most of its private exports, and pay relatively higher salaries. On the other end, there exist small and micro, largely informal, units that are financially constrained, turn out most of the country's private output and account for most of its private jobs (World Bank, 1994).

The medium and large enterprise sector is not numerically large, where almost 99 percent of the private non-agricultural establishments are either micro or small firms; that percentage is not much smaller within private agriculture (about 90 percent). Yet, medium and large enterprises are institutionally visible, well connected and incorporated into relatively sophisticated legal forms (joint-stock companies, limited liability concerns, partnerships with shares) while micro and small firms are broadly unrepresented, inconsistently regulated (even when fully registered) and set up in simple ownership structures (single proprietorships, partnerships). The distinction between "large" and "small" within Egypt's private sector is also manifested in terms of policy sensitiveness and across types of activity (World Bank, 1994).

Table 1a: Private versus Public Shares in GDP, and Different Sectors

Sectors	1991/92		1995/96		1999/2000		2000/2001		2001/2002	
	Public	Private	Public	Private	Public	Private	Public	Private	Public	Private
GDP	38.8	61.2	36.6	63.4	28.2	71.8	27.9	72.1	27.3	72.7
Commodity Sectors	37.2	62.8	35.7	64.3	23.6	76.4	22.5	77.5	21.5	78.5
Agriculture	1.2	98.8	0.7	99.3	0.4	99.6	0.4	99.6	0.4	99.6
Industry & Mining	41.9	58.1	37.8	62.2	13.3	86.7	11.9	88.1	10.1	89.9
Petroleum & Products	82.7	17.3	83.9	16.1	86.2	13.8	82.9	17.1	81.6	18.4
Electricity	100.0	0.0	100.0	0.0	100.0	0.0	100.0	0.0	97.9	2.1
Construction & Building	29.2	70.8	27.9	72.1	40.9	59.1	40.9	59.1	40.8	59.2
Productive Services Sectors	37.9	62.1	33.6	66.4	24.0	76.0	24.5	75.5	24.0	76.0
Transportation & Communications	52.1	47.9	48.7	51.3	17.4	82.6	17.4	82.6	16.5	83.5
Suez Canal	100.0	0.0	100.0	0.0	100.0	0.0	100.0	0.0	100.0	0.0
Trade	10.3	89.7	6.7	93.3	3.7	96.3	3.2	96.8	3.2	96.8
Finance	70.7	29.3	69.5	30.5	67.8	32.2	65.8	34.2	65.5	34.5
Insurance	60.5	39.5	59.6	40.4	82.2	17.8	77.2	22.8	75.8	24.2
Restaurants, & Hotels	15.3	84.7	14.8	85.2	1.7	98.3	1.7	98.3	1.3	98.7
Social Services Sectors	45.1	54.9	45.0	55.0	48.2	51.8	48.1	51.9	48.4	51.6
Real Estate ownership	5.4	94.6	5.6	94.4	3.7	96.3	3.5	96.5	3.3	96.7
Public Utilities	100.0	0.0	100.0	0.0	100.0	0.0	100.0	0.0	100.0	0.0
Social insurance	100.0	0.0	100.0	0.0	100.0	0.0	100.0	0.0	100.0	0.0
Government services	100.0	0.0	100.0	0.0	100.0	0.0	100.0	0.0	100.0	0.0
Personal services	0.0	100.0	0.0	100.0	0.0	100.0	0.0	100.0	0.0	100.0

Source: Author's calculation based on:
Central Bank of Egypt, Annual Time Series, 2003.

Table 1b: Private versus Public Shares in GDP, and Different Sectors¹

Sectors	2001/2002		2002/2003		2003/2004	
	Public	Private	Public	Private	Public	Private
GDP	34.6	65.4	35.1	64.9	36.3	63.7
Total Commodity Sector	27.1	72.9	27.0	73.0	29.1	70.9
Agriculture, Irrigation & Fishing	0.4	99.6	0.6	99.4	0.6	99.4
Extractions	86.2	13.8	85.2	14.8	84.2	15.8
A) Petroleum & Products	87.3	12.7	86.2	13.8	84.9	15.1
B) Other Mining	42.8	57.2	42.7	57.3	42.8	57.2
Manufacturing industries	13.5	86.5	13.5	86.5	13.2	86.8
A) Oil products	66.4	33.6	63.0	37.0	58.9	41.1
B) Other Manufacturing	11.2	88.8	11.1	88.9	10.6	89.4
Electricity	98.0	2.0	92.8	7.2	84.3	15.7
Water	100.0	0.0	100.0	0.0	100.0	0.0
Construction & Building	41.5	58.5	41.5	58.5	41.4	58.6
Total Production Services	33.0	67.0	33.8	66.2	34.3	65.7
Transportation & Communication	16.8	83.2	16.8	83.2	16.8	83.2
Suez Canal	100.0	0.0	100.0	0.0	100.0	0.0
Internal Trade	4.2	95.8	3.9	96.1	3.9	96.1
Financial Services	65.1	34.9	65.1	34.9	65.0	35.0
Insurance & Social Security	98.3	1.7	97.9	2.1	97.9	2.1
Hotels and Restaurants	1.4	98.6	1.3	98.7	1.4	98.6
Total Social Services	59.9	40.1	61.6	38.4	62.0	38.0
Real estate activities	4.1	95.9	4.1	95.9	4.1	95.9
A) Rent	3.3	96.7	3.2	96.8	3.2	96.8
B) Other Real estate & Business services	5.1	94.9	5.1	94.9	5.0	95.0
Government Services (Utilities)	100.0	0.0	100.0	0.0	100.0	0.0
Government Social Services ^{2/}	6.4	93.6	6.3	93.7	6.2	93.8

Source: Author's calculation based on Ministry of Foreign Trade and Industry, Monthly Bulletin, June 2005
1/ Starting from 2001/2002 Ministry of Planning reclassified the national account according to classification 1993

2/ Includes education, health, social, cultural, entertainment & personal services

The size of the government in Egypt is considered large by international standards (see for example, ERF, 1996). The government-controlled sectors account for more than almost a quarter of economic activity in Egypt and employ around a third of Egypt's labor force. The public sector enterprises operate in virtually all sectors of the economy, their activity ranges from the production of iron and steel to soap, cement to movies, phosphates, ceramics, hotels, etc. The government dominates also the banking and insurance sectors (Carana, 2002, Abdel Latif, 2002), however starting 2005 serious steps towards privatization in the banking sector started to take place. The government's overall contribution to GDP has remained virtually unchanged since the late 1980s (IMF, 1998). For example, as identified in Table 2, the percentage of government expenditure to GDP remained high. The situation is highly similar to the case of other countries including both developed and developing ones.

Table 2: Government Expenditures* as Percentage of GDP

	1990	1995	1997	2000	2001	2003
Egypt	27.8	33.7	30.5	n.a.	n.a.	n.a.
Germany	26.3	33.7	33.2	n.a.	n.a.	32.8
South Korea	16.2	16.5	17.4	n.a.	n.a.	n.a.
Jordan	35.8	30.8	32.4	n.a.	32.4	30.5
Tunisia	34.6	32.8	31.9	32.0	32.0	27.9

Morocco	28.8	32.9	30.6	n.a.	32.5	n.a.
Mexico	17.9	15.9	16.3	16.0	15.9	15.4
Turkey	17.4	22.2	29.9	39.4	49.5	n.a.

* Total expenditure includes both current and capital expenditures. It does not include government lending or repayments to the government or government acquisition of equity for public purposes. Data are shown for central government only.

n.a.: Not Available

Source: World Bank, World Development Indicators, CDRom,2005

In 1952, the private sector had the largest share of investment, 76% of the total. By 1960, the situation changed completely, and the public sector handled 94% of total investment where it has attained a dominant position till the early 1970s. In 1971, the first Law introduced to enhance private investment (Law 65 of 1971) identified certain fields of investment and offered foreign investors in those domains generous benefits. Such sectors included tourism, banking, agriculture and several industrial activities (Abdel Hamid and Bahaeddin, 2003). The year 1974 witnessed the start of the “Open Door” policy (Infetah), where many laws and regulations were incorporated to encourage the private sector. The most important was Law 43 of 1974 and its amending Law 32 of 1977. It is worth mentioning that at the time, the public sector was undertaking almost 90% of total investment, versus 10% for the private sector. By the end of the period from 1974 - 1983, the public sector was responsible for 81% of total investment, while the private sector share increased to 19%. By 1990, the public sector’s share was 68% against 32% for the private sector, although of a much higher total (Carana, 2002, IMF, 1998).

During the 1990's, the percentage of public share in implemented investment decreased by two percentage points between 1991/1992 (54%) and 2002/2003 (51.9%) (see Figure 1). Among the most important indicators of the relative size and role of the public and private sectors in economic development before the start of the privatization program in 1991, is the relative amount of public to private investment.

Figure 1: Gross Implemented Investments (1991-2003)



Source: Central Bank of Egypt (2004)– Annual Time Series

The public enterprises were estimated to produce about one-tenth of the GDP and employ about six percent of the labor force on average in the early 1990s (World Bank, 1994). During the 1990s the situation started to change where Egypt embarked on an economic reform and structural adjustment program (ERSAP) implemented jointly with the World Bank and the International Monetary Fund (IMF). A major component of this reform program was reducing the size of the government and increasing the size of the private sector by adopting an ambitious privatization program (the progress of the privatization program will be discussed in Section Two). As shown in Table3², this has been achieved in almost all industrial sector activities with the exception of mining and quarries. In general the size of the public sector in industrial production decreased from 68.7% in 1990/1991 to around 30% in 2002/2003.

² Tables containing values are in Appendix B

Table 3: Total Public and Private Industrial Production Distributed by Sector

	Percentage							
Sector	95/96	96/97	97/98	98/99	99/2000	2000/2001	2001/2002	2002/2003
Mining & Quarrying								
public sector	100	100	100	100	100	100	91.8	86.8
private sector	0	0	0	0	0	0	8.2	13.2
Food, Beverages & Tobacco								
public sector	71.5	69.5	66.9	64.7	56.6	52.4	51.5	44.0
private sector	28.5	30.5	33.1	35.3	43.4	47.6	48.5	56.0
Spinning, Weaving, Textile & Garments								
public sector	63.3	62.4	43.3	37.9	25.2	33.8	27.7	28.3
private sector	36.7	37.6	56.7	62.1	74.8	66.2	72.3	71.7
Wood & its products								
public sector	29.8	23.2	19.6	8.4	8.9	13.7	12.3	15.8
private sector	70.2	76.8	80.4	91.6	91.1	86.3	87.7	84.2
Paper & Chemical products								
public sector	56.1	51.9	30.8	22.9	21.7	21.5	21.6	20.3
private sector	43.9	48.1	69.2	77.1	78.3	78.5	78.4	79.7
Pharmaceutical, Drugs & Medical Supplies								
public sector	41.0	38.5	35.6	37.6	29.8	31.0	28.2	28.2
private sector	59.0	61.5	64.4	62.4	70.2	69.0	71.8	71.8
Non-metal Mining products								
public sector	65.1	62.9	59.3	55.4	25.7	9.9	7.6	9.1
private sector	34.9	37.1	40.7	44.6	74.3	90.1	92.4	90.9
Basic metal products								
public sector	63.6	65.9	59.0	40.2	31.5	30.1	37.3	37.9
private sector	36.4	34.1	41.0	59.8	68.5	69.9	62.7	62.1
Metal products, machinery & equipment								
public sector	37.2	38.6	30.8	18.8	15.5	13.0	13.7	14.6
private sector	62.8	61.4	69.2	81.2	84.5	87.0	86.3	85.4
Electric Machines								
public sector	42.9	33.7	28.6	13.2	13.4	6.9	5.0	3.4
private sector	57.1	66.3	71.4	86.8	86.6	93.1	95.0	96.6
Total								
public sector	59.5	57.7	48.6	41.5	33.4	32.3	32.5	30.0
private sector	40.5	42.3	51.4	58.5	66.6	67.7	67.5	70.0

Source: Author's calculation based on CAPMAS, The Statistical Yearbook, June 2004

The history of the public and private sectors in Egypt:

The private sector was dominant in the Egyptian economy during the era of monarchy. Starting the national revolution in 1952 and Suez War in 1956, the situation changed dramatically. Nationalization started with the near century old Suez Canal Company in the summer of 1956, under Law 285 of 1956, and was followed by the nationalization of the majority of foreign economic assets operating in the country, as well as land, real estate and other economic assets owned by Egypt's private sector.

In 1960s the nationalized companies and newly created public enterprises were initially placed under the administrative responsibility of three giant state-owned holding companies and then re-organized under approximately 40 public holding companies. Each holding company was given managerial responsibility for a group of affiliate public enterprises engaged in a particular branch of economic activity. The holding companies regulated their affiliate firms and were placed under the administration of a line ministry, which oversaw economic activity in its sector. These new institutions did not practice economic activity on their own. They were considered as 'economic holding units' with affiliated public companies who undertook the economic activity. As the owner of capital, the institutions' role was to plan, monitor the achievement of targeted goals, and evaluate performance of affiliated companies, without interference in their operations.

The activities of the private sector during that period were limited to small and medium-sized enterprises in the industrial, agricultural and internal trade sectors, as well as sharing international trade with the public sector. Many laws were passed to organize the public sector and designate its responsibilities.

By 1964 the state owned or controlled most of the enterprises within the modern sectors of the economy as reflected in the following list:

- All banking and insurance, all foreign trade;
- All "strategic" industries, all medium to heavy industries, infrastructure assets such as the Suez Canal and the Aswan Dam, all major textile, sugar-refining and food processing plants;
- Most maritime and all air transport, all ports and port facilities;
- All public utilities and urban transport, modest public housing;
- Major department stores, some of the urban retail trade, hotels, cinemas and theatres;
- All newspapers and publishing houses;
- All reclaimed land, all irrigation canals;
- All major construction companies.

In the early 1970s the Government of Egypt (GOE) decided to enhance the role of the private sector in the economy and adopted the so called "Open Door" (Infitah) policy. The policy was successful in increasing the role of the private sector in the economy, however, the final implication of the Open Door policy is that it contributed to an increase in the relative role of the private sector while in absolute terms the public sector continued to grow. For example, while private investment increased by a factor of approximately 130 times between 1974 and 1990, public investment still increased by a factor of 18 times the 1974 level (in current terms).

Table 4 identifies the shares of the public and private sectors regarding employment in manufacturing. It shows the tremendous increase in the private sector employment which increased by around 40 percentage points from 19.9% in 1969/70 to 63.4% in 2003/2004.

Table 4: Public and Private Sectors' Share in Employment in Manufacturing

Percentage		
Year	Public Sector	Private Sector
69/70	80.1	19.9
70/71	81.0	19.0
71/72	81.4	18.6
73	82.0	18.0
74	83.3	16.7
75	83.8	16.2
76	84.0	16.0
77	82.4	17.6
78	82.0	18.0
79	81.1	18.9
80/81	81.9	18.1
81/82	81.4	18.6
82/83	81.5	18.5
83/84	77.3	22.7
84/85	80.0	20.0
85/86	78.6	21.4
86/87	78.7	21.3
87/88	75.5	24.5
88/89	74.4	25.6
89/90	84.9	15.1
90/91	72.9	27.1
91/92	68.0	32.0
92/93	69.6	30.4
93/94	67.4	32.6
94/95	65.2	34.8
95/96	60.7	39.3
96/97	58.1	41.9
97/98	52.5	47.5
98/99	44.5	55.5
99/2000	42.0	58.0
2000/2001	40.5	59.5
2002/2003	37.9	62.1
2003/2004	36.6	63.4

Source: Author's calculation based on CAPMAS Industrial Statistics Bulletin, various issues

In 1991, the total number of the public enterprises reached 500. They were responsible for more than half of total industrial production, the majority of total export and import activities and, the banking and insurance sectors as identified above. The public sector's economic performance was weak as it turned to fulfill more social objectives than economic aims due to the high population growth and the inability of the government to resolve this growing problem in an effective way. The performance of the public sector continued to deteriorate over the 1990s. Within the public sector, the public enterprise sector³ consisted of some 300+ industrial enterprises. Debt and other financial burdens on the public sector have gradually increased. Debt in public enterprises increased relative to total invested capital, from 30.3% in 1975 to 74.3% in 1988. This led to aggregate losses over the period 1975 to 1988 of around LE 24.5 billion, with total debt reaching LE 80 billion by 1988. As of June 30, 1991, 399 public enterprises showed the following: The average return on total invested capital was 6.39% at the end of fiscal year 1991, slightly increasing from the figure one year before. The number of companies that suffered from financial difficulties reached 85 out of 399, representing 21% of the total companies.

Despite such losses of the public sector and public enterprise sector and the trials to revive and enhance the role of the private sector, the size of the government remained large as well the scope of activities falling under its control.

Regarding the activities falling under the control of the government they can be classified as follows:

The Central Government which consists of all the line ministries (34)⁴.

The local governments (There are about 2000 medium-size enterprises belonging to the local governorates, operating in an array of activities (from chicken farming to manufacturing workshops). They are normally incorporated as "economic units" and compete, more or less on equal footing, with the local private sector.

The service authorities, about 100 in number and consisting of (1) various bodies in the fields of communication, trade, finance, transportation, finance (including the capital market authority), housing and reconstruction and health; (2) the educational institutions, including universities and; (3) assorted other bodies in culture, tourism, and presidential services. Examples of such service institutions include institutions of higher education, science and technology, the antiquities department, university hospitals, mass media, the sanitary and sewage organizations, and the High Dam Authority. Most of them enjoy institutionalized or natural monopolistic positions (eg., sewage, High Dam) that fence off private sector competition;

The economic authorities, over 60 in number, which operate in areas of public utilities including those responsible for power generation, telecommunications, the Suez Canal, the petroleum company (EGPC), the railways and national airline⁵, the post office, government supplies, and water and port authorities. They are semi-autonomous corporations and are estimated to turn out a third of the economy's GDP, transfer their profits to (or cover their losses from) the state's budget. Almost all of them have legally established monopolistic rights. In 2004 the Minister of Finance announced that 15 economic authorities will be transformed to holding companies as they were facing financial

3 The difference between the public sector and the public enterprise sector is that the public sector firms were not planned to be privatized, whereas the public enterprise sector were set to be privatized following Law 203 of 1991.

4 The number of ministries can increase or decrease with each ministerial change due to addition of new ministries, abolishing some, merging some and splitting some.

5 This was transformed in 2002 into a holding company and a special ministry was established for Civil Aviation.

problems and hence such a decision will help to lessen the fiscal burden on the government budget (Al Ahram Newspaper, 29/5/2004);

The non financial public economic enterprises, about 319 in number (called affiliated companies) and covered by Law 203⁶, which are largely concentrated in the industrial sector, but also include hotels, electricity distribution companies, and transport and port-related companies. These affiliated companies are distributed between and controlled by 17 holding companies (changed later to 16 and then later to 10). The affiliated companies in turn own holdings in about 184 joint venture companies, which are partnerships between the private and the public sectors. They operate virtually in all the areas of the local economy. Their business interests range from cement, iron, phosphate, and ceramics, to soap, hotels, and movies. They employ about 6% of Egypt's total labor force.

There are also a few large industrial enterprises, military production, iron, and steel and so forth that fall under Law 97/1983. Such enterprises remain pure public sector and are not included under Law 203.

The banking sector comprises 4 public commercial banks, 26 joint venture banks and 21 public specialized banks, which are in turn supervised by the Central Bank of Egypt (CBE).

The insurance sector comprises the three public insurance companies, a reinsurance company, and five joint venture insurance companies, which are supervised by the Egyptian Insurance Supervisory Authority (EISA) and finally

The public pension fund and social security systems, and the National Investment Bank (NIB) which invests the surplus of contribution of social funds over payments (IMF, 1998, World Bank, 1994).

The financial relationship between the governmental entities is depicted in table 5.

Table 5: Financial Transactions between Public Entities

	Budget ¹	Banking Sector	Economic Authorities	National Investment Bank
Budget		Borrows from the Central Bank and the banking system and maintains deposits.	Plays the role of the Guarantor for any financing provide to economic authorities by any entity	Borrows from National Investment Bank (NIB). Interest rate on debt varies considerably.
Law 203 companies	Excluded from budget;	Outstanding debt to banking system of which about 60-70 percent is estimated as doubtful or bad.	Electricity distribution companies owe debts and arrears to the electricity authority.	Outstanding debt of Law 203 companies; extent of bad or doubtful debt unknown.
Social insurance and pension fund	Budget contributes to pension fund in			Pension fund transfers excess of

⁶ This law is concerned with privatization and is discussed in more details in the second part of the study.

	Budget ¹	Banking Sector	Economic Authorities	National Investment Bank
	the form of employer's contribution as well as annual top-up for inflation-related benefits to beneficiaries.			inflows (which includes returns on deposits with NIB) less payments to beneficiaries to NIB, which finances government investment expenditures.
National Investment Bank		NIB cannot borrow from banking system but operates a deposit account at the CBE.	Outstanding debt of EAs to NIB. Size of debt and arrears unknown.	
Economic authorities		Borrowing from (deposits with) banking system.		

¹ Central, local government, and service authorities.
Source: IMF (1998)

As shown in table 6, the largest contributors to GDP are the economic authorities (18 percent of total GDP), which account for less than 3 percent of the total labor force. At the other extreme, the civil service (comprising the central and local governments and service authorities) accounts for about 7 percent of total economic activity but a disproportionate share (25 percent) of the total labor force and nearly two-thirds of total government employment. The public enterprise sector, including the Law 97 companies, produces about 10 percent of the economy's GDP, while employing about 6 percent of the total labor force. As we can see from table 6, the share of the public sector slightly differs from the closest period (1997) identified in table 6 as it showed 36% in 1995/1996 (Table 1.).

Table 6: Size and Composition of the Public Sector in Egypt (1997)

Public Sector Entity	Share of Public Sector Output	Public Sector Share in Total GDP	Public Sector Employment as Share of Labor Force
Central and Local Government and Services Authorities ¹	19.4	7.3	24.9
Economic Authorities ²	46.7	17.5	2.8
Public Enterprise Sector ³	25.8	9.6	5.9
Banking	7.0	2.6	0.4
Insurance	0.1	0.0	0.1
Social Insurance	0.2	0.1	n.a.
Others ⁴	0.9	0.3	n.a.
Total	100	37.4	34.0

¹Service Authorities include regulatory bodies for agriculture, industry, transportation and communication, trade and finance, housing, reconstruction and health, the educational institutions, and other bodies providing tourist, cultural, and residential support services.

² includes petroleum, electricity, transportation and communication, Suez canal, and tourism and hotels.

³ includes industry and mining, construction and building, trade and restaurants, and tourism and hotels.

⁴ includes agriculture and real estate

Source: IMF (1998).

During the 1980s and the 1990s the manufacturing sector attracted private enterprises to contribute to the manufacturing of some intermediate products especially in the fields of basic metals, non-metal and engineering activities and the size of the private sector increased significantly compared to the public sector whether in terms of number of firms, capital, output or value added (see Table 7.).

The new production capacity helped the sector to restore, to an extent, its historical contribution to macro value added. The beginning of this period witnessed the progression of the private sector. Growth rates of the private firms – on average – reflected the impressive growth rates undertaken in investment, and registered impressive rates during the period that followed the open-up of the economy. Yet, due to the humble growth rates of the public portion of the sector- which constituted the bulk of the sector then, as well as the very high growth rates experienced by service sector, the manufacturing sector in total could not maintain its high contribution to GDP witnessed in the 1960s. Also, at the outset of the opening, services sectors experienced huge rates of growth, which made the contribution of the manufacturing to appear less than the 1960s (Abdel Latif, 2002).

Table 7: Distribution of some industrial indicators between private and public sectors

		Average Distribution						
Sector		1970-1974 ¹	1975-1991 ¹	1992-1997 ¹	1998-2000 ²	2000/2001 ³	2001/2002 ³	2002/2003 ³
Number of Firms	Public	19	16.2	12.9	6.8	2.7	2.8	2.7
	Private	81	83.8	87.1	93.2	97.3	97.2	97.3
	Total	100	100	100	100	100.0	100.0	100.0
Capital	Public	96.7	86.7	72.4	..	..	..	..
	Private	3.3	13.3	27.6	..	..	..	..
	Total	100	100	100	..	..	..	..
Output	Public	86.7	78.1	60.7	39.1	32.0	32.2	29.6
	Private	13.3	21.9	39.3	60.9	68.0	67.8	70.4
	Total	100	100	100	100	100	100	100
Value Added	Public	90.3	81.3	58.8	25.9	..	..	..
	Private	9.7	18.7	41.2	74.1	..	..	..
	Total	100	100	100	100	..	..	..

Sources:

¹: Abdel Latif (2002), and Author's own calculations, based on Industrial Production Statistics, CAPMAS

²: Author's calculation based on CAPMAS, Industrial Statistics Bulletin, various issues

³: Author's calculations based on CAPMAS, Statistical Yearbook, June 2004

The participation of the private sector in infrastructure and public utility projects has been kept to a minimum till late 1990s where it increased in a number of fields including power (mainly electricity) through BOOT, BOT operations. This trend has been accelerating significantly in the last few years.

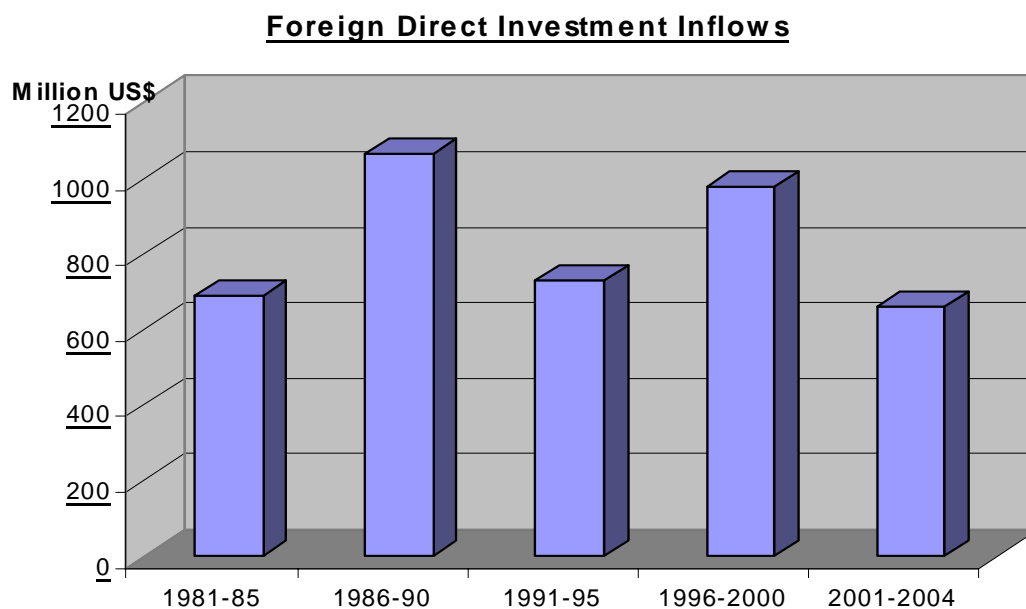
The private sector operates in free zones as well. In Egypt, free zones have been established following Law 43/1974 which was later incorporated under Law 8/1997 (see second part of the study for more details on this law). There are two types of free zones, namely public and private. There are seven public free zones with 674 firms operating whereas there are only two private free zones with a total of 177 firms. The main difference is that private free zones are zones established for a specific project or company after the approval of the General Authority for Investment (GAFI), to accommodate storage, warehousing (an activity that has been abolished in 2002), mixing and repackaging, assembly and manufacturing for exports and services. All free zones extend life-time investment incentives, in addition to complete exemption from all Egyptian income taxes, the general sales tax, and other direct or indirect taxes. There are no restrictions on investment activities and no custom duties or charges are levied on imports or exports of intermediate and final goods. Additionally, projects are exempted from regulations related to import/export activities. They are subject only to a duty of 1% of the value of goods entering free zone warehouses, and 1% of the annual value added for manufacturing or assembly projects. However, the executive regulations of the Law 8/97 stipulate that, inter alia, at least 50 per cent of production should be exported. Free-zone investors may sell their products on the Egyptian market after paying a normal tariff rates on imported components (Ministry of Foreign Trade, 2003).

In addition to the free zones there is the so called industrial parks which are regulated as well by Law 8/1997. There are 63 industrial parks, amongst which 1 is established by a presidential decree, 41 established by a Prime-ministerial decrees and supervised by GAFI, whereas 21 are established by Governors decrees, and supervised by governerates. Industrial parks are distributed throughout 19 governorates⁷. As at the end of February 2005, 60161 workers were employed in these parks. A total of 930 companies started production and 2191 are authorized – but didn't actually operate there, all governorates combined, an indication of there areas' capacity to attract foreign direct investments. Major activities include pharmaceuticals, ready-made garments, petrochemicals, appliances, ceramics and cement.

Foreign Direct Investment (FDI) flows have been decreasing over time. There are continuous efforts to attract FDI in Egypt by trying to establish a conducive business environment, nevertheless, they remain short of reaching their targets due to administrative and red tape measures which increases the transaction costs of doing business in Egypt, political circumstances affecting the whole Middle East North Africa (MENA) region and lagging macroeconomic reforms. However, Egypt still remains one of the major recipients of FDI in the MENA region. Figure 2 identifies the 5 years average of FDI inflows in Egypt in the period 1981 to 2000. The years starting 2001 and ending 2003 witnessed a decline in the FDI inflows to reach a minimum of 237 million US dollars in 2003. The FDI inflows picked up again in 2004 and 2005 to reach \$ 2,157 million and \$5,376 million respectively (UNCTAD, 2006). Most of the FDI is concentrated in the oil sector. Table 8 shows the activities where FDI is concentrated outside the oil sector and it is interesting to note that foreign capital participation did not change significantly in the different sectors between 1999 and 2005, with the exception of building materials, mainly attributed to cement sector, and services where financial and tourism sectors have attracted a large portion of non-oil FDI.

⁷ GAFI database, March 2005.

Figure 2: Foreign Direct Investment in Egypt (1981-2004), five- year averages



Source: UNCTAD online database

Table 8: Foreign Participation in Investment Companies by Activity in December 31, 1999, and March 2005

Activity	December 1999				March 2005			
	Capital	Investment Costs	Foreign Participation	Percentage of Foreign Participation to Capital	Capital	Investment Costs	Foreign Participation	Percentage of Foreign Participation to Capital
Textile	2,708	5,134	652	24.1%	5,241	8,628	1,276	24%
Food & Beverages	5,268	9,330	2,047	38.9 %	10,707	17,105	3,896	36%
Chemicals	9,571	17,789	1,801	18.8 %	16,027	27,468	3,162	20%
Wood Production	468	792	52	11.1%	894	1,404	80	9%
Engineering	5,583	9,981	1,096	19.6%	11,490	17,515	2,690	23%
Building Materials	4,777	10,847	911	19.1%	6,495	21,197	1,810	28%
Metallurgical	4,581	9,839	748	16.3%	6,064	10,862	1,066	18%
Pharmaceuticals	2,044	3,400	595	29.1%	5,404	7,113	1,453	27%
Mining	393	722	41	10.4%	512	9,050	51	10%
Total Industry	35,348	67,834	7,943	22.5%	62,837	112,200	15,487	25%
Agriculture	4,085	11,245	678	16.6%	5,938	10,889	1,120	19%
Construction	7,005	17,046	2,110	30.1%	8,653	20,221	2,457	28%
Tourism	25,938	47,708	4,478	17.3%	38,952	69,190	7,773	20%
Finance	17,191	17,191	4,919	28.6%	25,506	25,679	9,451	37%
Services	6,928	13,061	803	11.6%	9,345	15,968	1,557	17%
Grand Total	115,042	222,569	27,764	24%	151,234	254,148	36,847	24%

Source: General Authority For Investment (GAFI) database, 2005

Table 9 identifies the latest figure available on total number of private firms operating under Law 8/1997, which in fact encompasses most of the private firms in Egypt (compared with firms registered under law 159 as shown in the table). It identifies as well the sectors where private firms operate which are concentrated in the industrial sector and absorb the highest number of employees.

Table 9: Total Number of Firms Registered under the General Authority For Investments (GAFI), (by economic sector)

%	Capital Increase and Expansion Growth (L.E. billion)					Cumulative Number of Companies Established Under Law 8/1997 (End Sep 2004)		
	2000	2001	2002	2003	Sept. 2004	LE billions (End – Sept. 2004)		
						No. of Companies	Issued Capital	Employment (thousands)
Industry	2.9	2.7	2.2	3.4	3.2	10630	57.80	722
Agriculture	0.1	0.07	0.5	0.3	0.5	1101	5.6	97
Construction	0.03	0.3	0.4	0.1	0.5	386	8.3	74
Tourism	0.8	0.4	1.3	1.2	1.3	1444	35.4	193
Finance and Services	1.5	0.8	1.8	2.1	0.4	1735	33	73
Total In-Land	5.3	4.2	6.2	7.1	6	15296	140.1	1159
Free zones	0.2	2.4	1.7	1.6	2.8	763	35.6	113
Total	5.5	6.6	7.9	8.7	8.8	16059	175.7	1272
Companies under law 159	2.6	1.5	1	1.6	0.9	17706	35.6	71
Grand Total	8.1	8.1	8.9	10.3	9.7	33765	211.3	1343

Source: General Authority For Investment (GAFI) database, 2005

Section Two: Process of Privatization in the Egyptian Economy During the 1990s:

The process of privatization in Egypt, as the case of other countries in the Middle East North Africa (MENA) region, has lagged behind world trends. The main reasons in Egypt and other Arab countries were merely political where many governments in the region were reluctant to give up the power that state-owned enterprises provide, despite growing of their economic and financial failure. The press in much of the region tends to be critical about the social impact of privatization. Public sector employees and trade unions which are important supporters of many governments in the region have been wary of potential layoffs and wage cuts associated with privatization (ERF, 1996). Nevertheless, with the adoption of the ERSAP in 1991, an ambitious privatization program was set and gained momentum. In 1990, the portfolio of state-owned enterprises consisted of a mix of profit (about 250) and loss making enterprises (54), public enterprise sector operated with a hard budget and their deficit was financed by the government budget. Although this portfolio showed a profit of L.E. 1.2 billion, accumulated losses reached some L.E. 2.37 billion. In addition, the debt of public enterprises was some L.E. 47 billion, a huge burden on government finances and state commercial banks, main financiers of public enterprises at the time. The companies privatized or set for privatization are diversified over a number of sectors including agriculture, real estate and construction, food and beverages, milling, pharmaceuticals, cement, chemicals and fertilizers, engineering, retail, textiles, housing tourism and hotels (Ministry of Foreign Trade, Egypt 2003). The privatization process has been projected to reduce the public sector's role in industrial sector activity by about 25 percentage points, from 38% to 13% and in total output from about 9.6% to 3.2% (see for example Khatab, 1998; World Bank, 1999; Ministry of Foreign Trade, 2002).

Since the launching of Egypt's privatization program in 1991, three companies were 100 percent sold to the private sector, minority holdings in 18 companies were partially floated on the stock exchange, several hotels were sold, and employee share ownership (Employee Shareholder Association) schemes valued at about \$1.8 billion have been structured. Estimates of the total value of share offerings have reached about \$800 million, but more than \$30 billion in state-owned assets remain. There was a clear commitment to accelerate privatization since the appointment of a new government in January 1996, as exemplified by the recent sale of majority stakes in several companies. During the next five years of the privatization program (1996-2000), the Government of Egypt (GOE) successfully privatized some 170 companies under Law 203. The period 1996 to 1998 witnessed the privatization of 85 companies and production units. Privatization continued at a fast pace through 1999. A total of 137 Law 203 enterprises had been (majority and minority) privatized by the start of the year 2000, along with:

- Public sector shares in 21 joint venture industrial companies,
- 16 joint venture banks,
- 2 joint venture insurance companies,
- Various other entities.

Starting 1999 the privatization pace slowed down till the appointment of a new cabinet in 2004 where the pace started to accelerate as shown in Figure 3.

The GOE used several methods of privatization as summarized in Table 10.

Table 10: Egyptian Privatization Techniques

Sales to anchor investors	Sale of a majority of shares to a strategic / controlling investor
Majority initial public offerings (IPOs)	Tender of a majority of shares on the Cairo and Alexandria Stock Exchange
Sales to employee shareholder associations (ESAs)	Sale of a majority of shares to the company's ESA
Liquidation	Liquidation of the company as going concern and the sale of the company's assets
Minority IPOs	Tender of a minority of shares on the Cairo and Alexandria Stock Exchange
Leases	Lease of some or all of a company's assets
Asset Sales	Sale of company assets

Figure 3. provides an overview of the privatization proceeds whereas Table 11. identifies a summary of the privatization process progress up till end of 2005. (for the whole list of privatized firms with the method of privatization see appendix A).

Figure 3: Privatization Sales / Proceeds (L.E. Millions) (1993-End March, 2005)

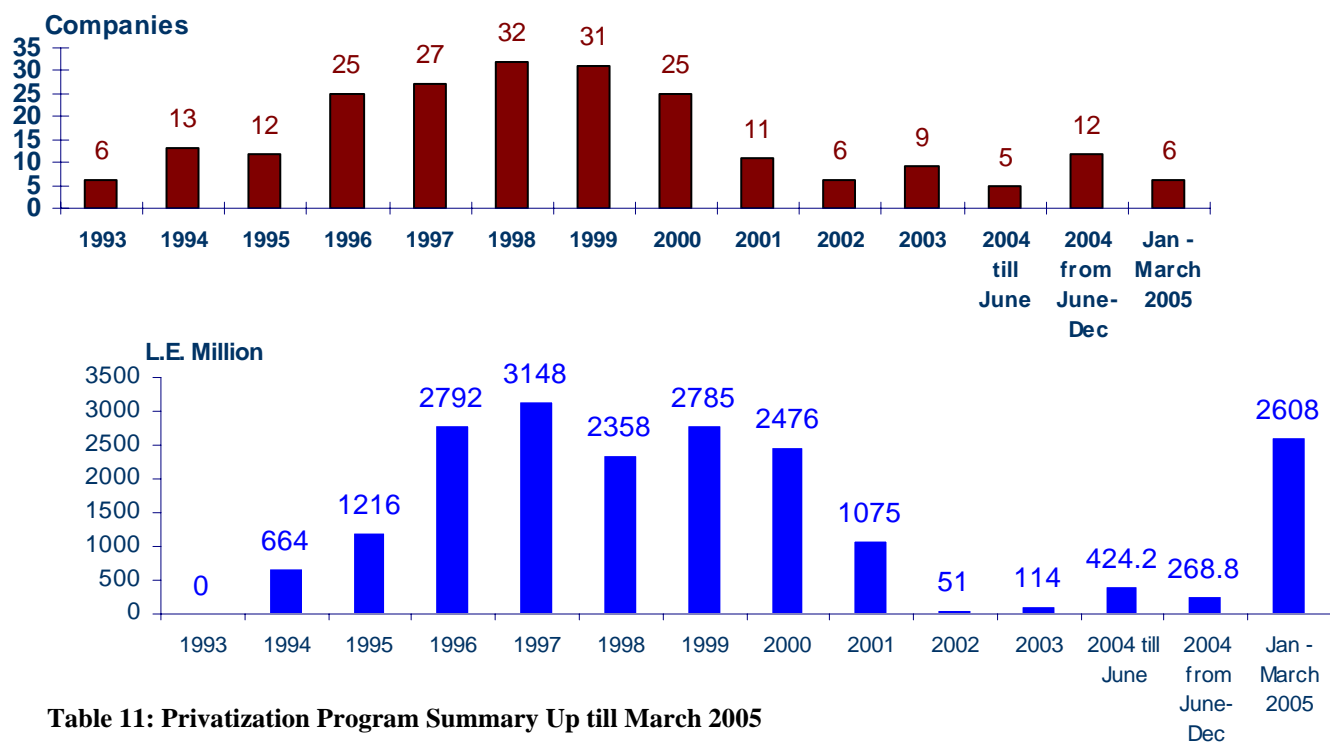


Table 11: Privatization Program Summary Up till March 2005

Sale Technique	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 till June 2004	July 2004 - March 2005
Stock Market (majority)			1	14	14	8		1					
Sale to Anchor Investor		3		3	3	2	9	5	4			2	9
Sale to ESAs		7	3		3	12	5		1	2			
Companies Sold As Assets	6	2	2	1	3	6	7	3	2	1			
Trenches to Stock Market		1	6	6	2	1							
Sale of Separate Assets				1	1	3	4	6	3	3	6	3	9
Companies / Assets leased					1		6	10	1		3		
Total Value of Sales (LE million)	0	664	1216	2792	3148	2358	2785	2476	1075	51	114	424.2	2877

Source: Egyptian Investment Portal – www.investment.gov.eg - Ministry of Investment, Arab Republic of Egypt (2005)

Evaluating the Privatization Process:

During the initial three years of the privatization program (1993 to 1995), the pace of privatization was slow. In 1996, the constitutional court upheld the right of the government to privatize the public sector. After this favorable legal ruling, the privatization program gained momentum, mainly through flotation of shares of public enterprises on the stock market. The program slowed significantly in early 1997 as the government began to move to problematic companies with massive overstaffing, huge debts and large unsold inventories. Debt-rescheduling agreements were reached with public banks, and an early-retirement program initiated with union consent in March 1997. The government accelerated the pace of privatization in the aftermath of the Luxor massacre⁸ in November 1997, and placed more stress on corporate investor transactions, in part to reassure investors but also in recognition of the need to upgrade management, technology and marketing.

As of June 1998 the total number of privatized companies was 96. Since mid-1999, however, privatization has been hampered by political concerns, poor market conditions, cumbersome bureaucratic procedures and a lack of official pricing flexibility. This has mainly confined the program to liquidations and the sales of small firms to their employees, as well as the odd high-profile sale, notably of cement companies to international producers. Although a number of sectors remain off limits, notably the Egyptian General Petroleum Corporation and the Suez Canal, and a 40% limit have been set for strategic sectors such as pharmaceuticals and flour mills, the government has relaxed its ban on the privatization of utilities. An initial public offering (IPO) of a 20% stake in the state telecommunications monopoly, Telecom Egypt, has been repeatedly postponed since October 2000 owing to poor market conditions.

Moreover, in 1998 the government opened up the state-run mobile phone network to two private operators. The generation and distribution activities of the seven state-owned electricity distribution companies have been separated and a regulator established as part of the pre-privatization restructuring process. However, the sectors debt burden of L.E.15bn (US\$3.4bn) remains a major constraint to progress on privatization. In September 2001 the government announced that it would offer for sale 15% in the electricity distribution companies and 40% in the state oil distribution companies, but no progress has been made. By end-June 2002 the government had completed 135 majority and 58 minority privatizations, out of 314 public enterprises slated for privatization, generating revenue of L.E.14.4bn (around 4.5% of GDP). These transactions included the sale of majority stakes in 38 companies and minority stakes in 16 companies through a public offering, the liquidation of 32 unviable companies, 28 anchor investor sales, 20 companies leased, 21 asset sales and 30 companies sold to employee shareholder associations. As a result, the public sector enterprises' share of total employment has been reduced from 6% in 1991 to 2.5% by mid-2002. However, the government is behind schedule: the privatization program for public enterprises was planned to be completed by end-2002. The Ministry of Public Enterprise (MPE) announced in late 2002 an effort to gradually privatize some state-owned enterprises by participation of private investors in capital increases for the companies. The MPE also announced it would retain the services of foreign and domestic financial advisors to assist it in the privatization program. Nevertheless, progress remained slow over the past year through August 2003.

⁸ The Luxor incident was a terrorist attack on one of the touristic places in Luxor which affected the tourism (the main source of foreign exchange) in negative terms.

As of March 2003, 193 entities had been privatized since 1993, generating proceeds of LE 17.1 billion. However, only 10 deals valued at LE 346 million were completed in 2002, including asset sales, anchor sales and sales to employee shareholders associations, compared to an annual average of 25-30 transactions worth LE 2.5-3.5 billion from 1996 through 2000. During the first quarter of 2003, the only privatization transactions that took place were the leasing of two minor state-owned assets to private firms. In fact, in 2004, the Minister of Public Enterprise announced that a number of companies (68) which were set for privatization will not be privatized. He related this decision to taking in consideration social and strategic aspects (El Ahram Newspaper, 12/04/2004). The main signal that is captured from this announcement and the slow down of the privatization process is that hard budget constraints have affected negatively the privatization process, which in turn affects negatively the status of competition.

Conventionally the objectives governing privatization were only limited to the types of sales activities; however there is a new approach and thinking now involved with privatization, that has expanded to include the effective management of state owned assets.

With the cabinet shuffle that took place in July 2004, the Ministry of Investment (MOI) was established to encompass several organizations including the former Ministry of Public Enterprise, the Capital Market Authority and GAFI.

MOI has adopted a different approach to privatization whereby it now follows an asset management approach. With this approach, all state-owned assets are treated as one pool that has to be managed in order to maximize returns.

MOI ambitious plan started to yield as it succeeded to sell 12 firms and asset during the period July – December 2004 with a total proceeds reading L.E. 268 Million, whilst till March 2005, 6 large transactions took place totaling to L.E. 2608 million, and pushing the prospected sales proceeds for the fiscal year 2004/2005 to read as double as the overall proceeds of the program since Jan 2001 till June 2004.

Section Three: Share of Public and Private Sectors in Egypt: Sectoral Focus

The public sector still accounts for a large share of economic activity, about one third of economic output and employment. The value of privatization transactions has been the equivalent of 0.46% of GDP annually. This represents the percent of GDP transferred on an annual basis from the public sector to the private sector. There was virtually no government investment in public sector enterprises after 1991/92 (LE3.9 billion), except for LE226 million in 1998/99 (as reported by the CBE). However, the Government made additional new investments of LE 7.7 billion in Industry and Mining projects between 1992/93-2000/01, as well as LE21.4 billion in Agriculture and Irrigation, and LE70.4 billion for Infrastructure and Construction. Thus, it can be concluded that the investments previously made in public sector enterprises were channeled into other public sector entities and projects. This also helps explain why the public sector continues to represent a high percentage of GDP, despite the privatization program (Carana, 2002). Moreover, privatization did not help to attract FDI as expected. Out of the 29 anchor investor privatizations listed by the Ministry of Public Enterprise (MPE), only 11 have involved sales to foreign strategic investors. This implies that the privatization did not have a significant impact on FDI. The volume of proceeds since the initiation of the privatization program read LE. 20.7 billion Egyptian pounds, amongst which L.E. 10 billion were foreign participation or FDI related transactions, which almost contributes to 50% of the overall program proceeds till June 2004, that were recovered over 21 transaction out of 202 sales transaction that were conducted over the same mentioned period 1994 – June 2004.

In this section we provide an overview of a number of manufacturing, services and public utilities sectors and identify the scope of private sector involvement.

Manufacturing:

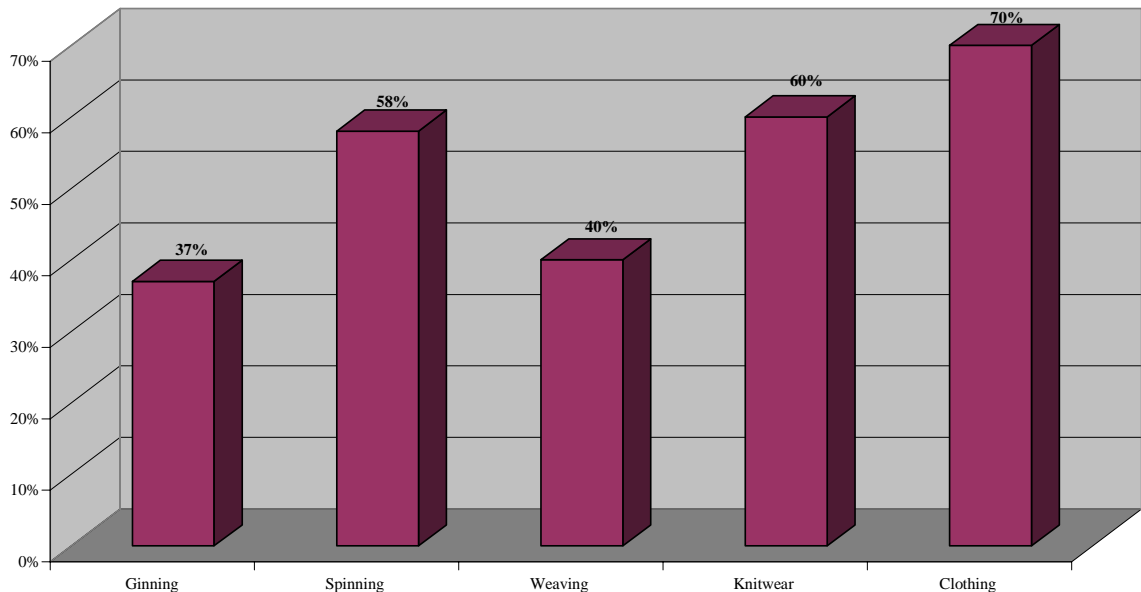
In the 1970s and early 1980s industrial production grew at an annual rate of 10% or more, after the oil price explosion of 1973-74 encouraged Gulf countries to invest in Egypt, but growth has since slowed. During the 1990s, the manufacturing sector accounted for approximately 20% of GDP of which some 65.5% was contributed by the private sector. In 2001/02 and in the previous year the manufacturing sector employed about 13.8% of the workforce. Main sub-sectors include metallurgy, cement, fertilizers, textile/clothing, food processing, and other consumer goods. Anecdotal evidence suggests that, while industrial production in the past was once dominated by the public sector, such dominance has declined in recent years, and the private-sector production has increased sharply in response to privatization and liberalization. The sector as a whole has, however, been in decline since 1999 as domestic economic conditions have deteriorated. The vast majority of private industries are small units where some 93% of employment is in enterprises of 15 or less people. The food-processing and textiles industries account for the bulk of Egypt's manufacturing value added (MVA), although there has been a gradual increase in the share of MVA accounted for by the furniture, ceramic and pharmaceutical industries, and most branches of the metallurgical and engineering industries. The government has recently been keen to promote the computer software industry (Abdel Latif, 2002).

1) Textiles:

The textile industry has been always viewed as the most important industry in Egypt. It dates back to more than a century. According to the Egyptian Textile Manufacturers Federation (ETMF), there are about 42 public enterprises and 2,356 private enterprises engaged in the Egyptian textiles industry. It is estimated that there are also thousands of small textiles workshops and factories around the country that are not members of the ETMF. The ETMF states that the textiles industry employs an estimated one million workers – around 30% of Egypt's industrial workforce (Carana, 2002). Other sources report different figures where the current number of public enterprises is 27, larger number of private firms and less but unspecified number of workers (Ghoneim, 2006, forthcoming). The textiles industry has always been historically suffering from permanent problems despite its great importance as a contributor to the economy in terms of value added, output and exports. The chronic problems include outdated technology, excess labor, lack of quality control, etc. The industry is divided into several sub sectors. For example, in the case of spinning and weaving the state is still in large control where for example the state enterprises control almost 100% of firms in the case of spinning and 70% in the case of weaving, whereas in the case of ready made garments, 90% of the firms are owned by the private sector where it attracts a large amount of FDI. The performance of the private sector has improved tremendously after the introduction of the international franchising which became highly popular in the 1990s especially in menswear and children wear (UNCTAD, 1999; Abdel Latif, 2002). Such improved performance does not support our main hypothesis that trade liberalization in the form of international franchising has a positive impact on enhancing competition and improving the performance of the private sector. Figure 4 shows the relative size of the private sector in the different sectors of textiles and clothing industry.

Figure 4: Private Sector Share in the Textile and Clothing Industry

**Private Sector Share in the Textile and Clothing Industry
1999-2000**



Source: ETMF

Until the last few years, the public sector had a monopoly in all the “upstream” stages in the supply chain for cotton textiles, by far the most important in Egypt: internal trade and supply of cotton, cotton ginning, spinning of yarn and weaving and dyeing of fabric. With no option to import inputs, this meant that private garment producers were dependent on these public sector suppliers in terms of price, quality and availability. Numerous studies have demonstrated that these policies negatively impacted the competitiveness and dynamism of a sector that could have been a much larger exporter and source of jobs (see for example, Kheir El Din and El Sayed, 1997; and Fawzy, 2003).

In the past few years, as shown in Figure 4 above, the combination of privatizations and policy liberalization have allowed increasing private sector participation. For example, in cotton ginning, there are 7 major gins: two state owned, two privatized and two new private. The result is a greater degree of choice of suppliers for downstream producers and the new owners are rationalizing production by reducing the work force and upgrading the machine portfolio to meet quality and efficiency standards. However, the poor financial performance (hard budget constraint) of the remaining Law 203 companies, and the difficulties that the holding company has had in privatizing them, indicate the depth of structural and competitive difficulties that developed in this highly globalized and competitive industry (Carana, 2002).

In 2003, 43 textile companies were still listed under Law 203, of which only 14 were slated for privatization. The remaining 30 companies have limited potential for privatization due to their relatively poor and unattractive current financial conditions. However, these remaining companies represent more than 50% of the labor force and more than 70% of the assets of the total textile sector companies under Law 203. This segmented or partial approach yet again delays the essential sector reforms that are necessary to accompany the privatization of distressed companies in the textile sector. Within the 14 distressed textile companies scheduled for privatization, revenues have declined by more than 50% in the past three years, while cost reductions have not kept corresponding pace. These companies are facing rapid deterioration in earnings and labor productivity. Ownership change, if possible, may not solve the sector’s long-term viability and sustainability.

The future of this industry is subject to a high degree of uncertainty due to the persisting structural problems and the erosion of preferences with the abolishment of the Agreement on Textiles and Clothing (e.g. lack of sufficient investments in essential services as sewages, and water systems, shift of cotton producers to other more profitable cash crops, and threat from effective competitors within the region as Turkey, Morocco or outside the region as China). Synthetic textiles is the fast-growing segment of textiles in export markets due to increased utilization in diversified segments ranging from automobiles (airbags, cars’ interior), to health care and leisure (sport equipment, sportswear). However, Egypt does not have a competitive advantage in the production of synthetic textiles. The difficulties that such industry faces has been reflected in its weak performance in the international market where for example Tables 12a,

12b, and 12c. show that Egypt was not able to utilize its textiles related quotas in the US and the EU markets. Nevertheless, Egypt still acquires a competitive advantage in the production of fine cotton goods (UNCTAD, 1999).

Moreover, the spinning and weaving of synthetic fibers is highly capital intensive, and the dyeing, printing and finishing sectors need to be developed to support the move towards high value-added man-made fiber products both in textiles and clothing which does not fit with Egypt capabilities.

**Table 12 A: Quota Utilization of Textiles and Yarn Exports to the European Union
(January - December 2004)**

Item	Unit	Quota	Usage	Percentage of Usage
Cotton Yarn	Ton	64,860	17,413	27
Cotton Textiles	Ton	22,950	3,785	16.5

Source: Ministry of Foreign Trade, Aggregated Foreign Trade Report, March 2005

**Table 12 B: Quota Utilization of Textiles and Yarn Exports to the United States
(position up to 29/12/2004)**

Item	Unit	Quota since 2004	Usage	Percentage of Usage
Yarn	Kg.	19274100	3315145.2	19.7
Brushed Yarn	Kg	6045035	2230618	40.6
Towels	Kg.	2774069	1251105	52.0
Knitted Shirts & T-Shirts	Dozen	5287822	3003483	64.9
Un-Knitted Shirts	Dozen	2190671	260670	13.3
Women trousers	wool Dozen	21315	12789	65.8

Source: Ministry of Foreign Trade, Aggregated Foreign Trade Report, March 2005.

**Table 12 C: Quota Utilization of Cotton Yarn and Cotton Cloth Exports to Turkey
(position up to January - June 2004)**

Item	Quota (Ton)	Usage (Ton)	Percentage of Usage
Cotton Yarn	7055	2742.9	38.8
Cotton Cloth	1457	141	9.6

Source: Ministry of Foreign Trade, Aggregated Foreign Trade Report, March 2005.

The textiles and ready-made garments industry has experienced increased inter-firm rivalry due to the liberalization of trade beside other main factors, namely engagement in the value chain world production and the increased numbers of upstream and downstream industries which are necessary to enhance competition. Privatization played a role in this regard by softening the hard budget constraint faced by the public sector firms. The case of the textiles industry supports one of our main hypothesis which is soft budget constraint enhances competition whereas it does not support our other main hypothesis where trade liberalization had a partial positive impact on the status of competition in this industry.

2) Assembling Cars:

The decision to end the public-sector monopoly of the production of passenger cars in 1991 led to renewed growth in the vehicle assembly sector. A number of foreign firms have begun local manufacturing, either through joint ventures or licensing agreements. However, over half the inputs utilized in the assembly process are imported from abroad, significantly raising costs, particularly in light of the depreciation of the Egyptian pound over the past few years. There are 17 private vehicle factories located in and around Cairo, employing some 60,000 workers. They tend to operate at around 30-35% capacity. The economic downturn since 1998-99 has affected consumer spending, and domestic automobile production fell 6% to 37,500 units in 2001 from 39,616 units in 2000 (Carana, 2002). The industry is highly protected with prohibitive tariffs. Even after a reduction in such prohibitive tariffs on some categories of passenger cars took place in 2004, the high effective rate of protection was maintained. Moreover, special incentives are provided to enhance investments in this industry where manufacturers are repaid tariffs they have paid on imports in equivalent with the local value added they have produced. Such evidence does not support the hypothesis of that trade liberalization is important factor in determining the degree of competition in the industry and its performance. Where liberalization is limited, it is not expected that performance will be highly positive. This contrasts with the first case of franchising in the ready made garments industry where the ready made garments industry focused on exports, whereas the cars assembling focused on the local market.

3) Beverages:

Despite the highly acclaimed privatization of Al Ahram Beverages, Egypt's monopoly brewer in 1997, the beer industry in Egypt remains a monopoly, albeit private. High barriers to entry have traditionally protected the beer industry through prohibited tariffs. The privatized Al Ahram Beverages company controls over 90% of sales in the market for beer, with imports and other producers constituting an insignificant market position. In 2002 the largest acquisition in the Egyptian capital market took place where Heineken's acquired Al Ahram Beverages Co. for a value of \$280 million. However, while the private sector has replaced the government's former monopoly, the quality and availability of beer in Egypt has generally improved. Al Ahram has introduced several new brands of beer into the market since the privatization and has invested heavily into ensuring that adequate quality controls are adopted. Product availability has generally improved, due to major investment in new production facilities and an expansion in the distribution network in parts of the country characterized by heavy market demand. The diversity of products under the private sector's existing monopoly and low import penetration has also resulted in a minor price rise for original brand name products. The new brands of beer introduced have tended to carry a higher price tag than the original brands, although these are still price competitive compared to imported products.

Since its privatization in 1997, Al Ahram Beverage Co. has been expanding rapidly with new investments reaching LE1 billion. It is one of Egypt's nine companies with shares traded internationally as global depository receipts (GDR's). It was chosen in October 2001 by the American Forbes Global magazine as one of the 20 best performing small companies worldwide. Launched in April 1999, the El-Gouna Beverage Group captured a 15 per cent share of Egypt's alcoholic beer market and 40 per cent of the wine market. In 2001 ABC announced its acquisition of El-Gouna Beverages LE 215 million in cash and assuming LE40 million worth of El-Gouna's debt (Al-Ahram Weekly 2001). The important aspect of the beer industry, is that despite the high protectionism it enjoys, it remains highly competitive. The beer industry is a case which supports our hypothesis that soft budget constraints have a positive impact on competition. We cannot test the hypothesis related to trade liberalization as it did not take place, but we assume that contrary to our hypothesis that trade liberalization will lead to more competition and enhance inter-firm rivalry. This is due to the fact that the internal market for this industry is considered relatively limited due to cultural and religious factors. Hence, in order to succeed the industry depends heavily on the exports market which forces it to be competitive.

The market for carbonated soft drinks was transformed as a result of the privatization of the state owned bottling plants producing Coca Cola and Pepsi Cola in April 1994. Up until privatization, government enterprises dominated the sector, though private firms were also present in the market. Since the privatization of the Coca Cola and Pepsi Cola in 1994, as well as Al Ahram Beverages in 1997, the private sector has controlled the market, with the major players being:

1. Coca Cola (45% market share)
2. Pepsi Cola (40% market share)
3. Al Ahram (8% market share)
4. Schweppes (4% market share)

The price for the mainstream bottled products has increased marginally since privatization, though the quality is said to have improved and has been standardized, since all the main players in the market have invested heavily in quality control and improved production methods. Distribution channels have been enhanced by the private sector, expanding

accessibility of products to the consumer. New products have been introduced by the private sector entities, and there has been a general shift to canned products, which are more expensive than bottled soft drinks (Carana, 2002).

4) Cement Industry (see Part IV for the case study on cement)

Egypt produced 28.6 million tons per year of cement in 2002/2003 compared with 26.8 million tons in 2001/2002 and another 4.8 million tones per year are imported. Government statistics put cement production in fiscal year 2002/2003 at 28.6 million tons. Domestic sales actually fell from 26.5 million tons to 26.4 million tons, but Egypt has taken advantage of the pound's depreciation to increase exports (2.6 million tons in calendar year 2002 (US Embassy, 2002). Since 1998, there has been something of a revolution in the Egyptian cement industry which has been monopolized by the government with very few private players in the market. During the era of governmental control the industry suffered from a number of problems ranging from low utilization of production facilities to low productivity and high dependence on imports. Moreover, the distribution of the cement was controlled by a number of licensed cement distributors where construction companies had to order the cement from those distributors and not from the cement producers directly (Jenny, 2003). The government has sold majority stakes in four state-owned firms to foreign companies, a minority stake in one, and another company to an Egyptian consultancy. Some of the world's biggest cement companies, such as Lafarge, Holderbank (which took a stake in a private sector Egyptian start-up), and Cemex of Mexico, have been attracted by the booming construction industry of the 1990s and the government's grand infrastructure ambitions (World bank, 1999). However, with wave of privatization, another wave of mergers and acquisitions occurred (Nassar, 1999). The industry has been controlled since then by six companies. The largest three accounted for 50% of total production as shown in Table 13.

Table13: The Egyptian Cement Market in 2000-2001

Law 43/199	Egyptian	Suez Cement/Tourah*	30%
Law 159	Foreign	Assuit Cement/Cemex Egypt	15%
Law 159	Foreign	Beni Suef/Lafarge Titan	6%
Law 159	Foreign	Amriyah/Cimpor	9%
Law 159	Foreign	Alexandria/Blue Circle**	3%
Law 159	Egyptian	Egyptian Cement Company ***	12%
Law 203	Egyptian	Helwan Cement	13%
Law 203	Public	National Cement	12%
Total Public Sector market share			12%
Total Private Sector market share			88%

* Established as private /JV company in 1997 under Law 43 of 1974

** now owned by Lafarge

*** Greenfield Egyptian and foreign investor private sector from early 1990s

Source: Carana, 2002

Because of the acquisition of local cement companies by large international firms (for example there were five acquisitions in 2005), competition from imports has declined in Egypt since these international firms were the main importers of cement in Egypt. Moreover, attracted by the profit opportunities, four new private companies, the Egyptian Cement Company, Misr Beni Suef, Qena Cement and Sinai Cement also entered the market supplying nearly 1.4 million tons each. Altogether, market capacity increased by 7.5 million tons between 1999 (when the government privatized the local cement industry) and 2002, still there is a gap which is supplied by imports. The entrance of new comers intensified competition and lowered prices which were sometimes forced upon new comers to preserve their existence in the market even if they had to sell at the break even point (Jenny, 2003). The presence of small players, helped by a network of wholesalers is the leading factor since, unlike in the public sector era, distributors now deal with any cement company which gives them a good bargain". Moreover, The Egyptian Cement Company started exporting its production to the Spanish Canary Islands at much lower prices than that offered by Cemex, the Mexican cement

producer with a majority stake in Assiut Cement. According to some interviews as shown in Jenney, 2003, anticompetitive behavior started to be realized in the cement market where big players started a price war to get the small players out of the market. To avoid continuing such price war, some sort of price fixing and market sharing agreements were set.

The Egyptian consumption of cement in 2002 was 26,682,000 tons. The cement producers agreed to increase the price of cement from L.E. 125 to L.E. 171 (on average), an increase of about L.E. 46 per ton. The annual costs to Egyptian consumers of this price fixing agreement are L.E. 1.227 billion or US\$ 227,111 per year. The Egyptian government stood powerless to prevent either the predatory pricing or price fixing because there is no competition law in Egypt (Jenny, 2003). Hence, the story of the cement industry in Egypt shows that despite the opening up of the industry through privatization, following the beer and the ready made garments, the absence of a competition law in this industry affected the competition negatively and did not benefit the consumers. The cement industry as will be seen in Part IV supports the hypothesis that trade liberalization did not enhance competition and increase inter-firm rivalry. On the other hand, soft budget enjoyed by privatized firms increased inter-firm rivalry to a certain extent leading to a price war which was followed then by a collusion due to the absence of one of the main pillars of a market economy, namely competition law.

6) Pharmaceutical Industry:

The industry consists of 64 firms divided between multinationals (8 firms), private (48 firms), and public enterprise firms (8 firms). The domestic private sector has become an important player and currently accounts for more than half of total output. The multinationals' market share is around 30 per cent. The traditional dominance of public-sector enterprises has been consistently subsiding, from a market share of 76 per cent in 1981 to 15 per cent today. The presence of multinationals in Egypt dates back to the 1960s following government control of all imports and distribution of pharmaceuticals, albeit leaving a low tariff structure intact. This move, and the limited patent protection of imports of pharmaceutical products, created the incentive for foreign companies to set up production facilities in Egypt. The Egyptian pharmaceuticals sector was thus among the first recipients of FDI, when Pfizer, Hoechst and the Swiss consortium of Ciba Geigy, Sandoz and Wander (Swiss Pharma) established joint ventures in Egypt.

Typical of the pharmaceuticals industry world wide, production in Egypt is characterized by a relatively high degree of concentration. The top ten firms operating in the Egyptian market control over 44 per cent of market share, while the top 5 companies control 27 per cent of the market. The Government hedges against possible oligopolistic behavior by regulating the movement of drug prices. Drug prices in Egypt are administered by a cost plus formula, which allows a profit margin of 15 per cent on essential drugs and 25 per cent on non-essentials.

An additional feature of the Egyptian pharmaceuticals industry is that local production is concentrated on end-use products for final consumption. The industry imports nearly 90 per cent of its raw material and intermediate inputs with its total import bill reaching US\$ 221 million in 1995.

The industry has thus achieved limited success in developing backward linkages, with little local production of intermediate inputs. Companies attribute this to the discouraging pricing regulations and inadequate economies of scale. The Egyptian pharmaceuticals industry has excelled in terms of manufacturing generics. More than two thirds of the output of the public and private (national) sectors is accounted for by generic products, while the remainder is produced under license. Egypt's pharmaceutical exports are almost exclusively in the generic (off-patent) category of drugs (UNCTAD, 1999).

Neither trade liberalization, nor soft budget affect the status of competition in this industry as the pricing is subject to government's intervention. However, it can be predicted that soft budget will lead to more inter-firm rivalry which is not necessarily the case with trade liberalization. The main reason behind our judgment is that hard budget prevents the public sector firms from increasing their prices which is relatively enjoyed by foreign firms. Hence, an opening up of the market will not enhance competition but a soft budget for public sector firms will allow them to price their products on more realistic basis which will enhance competition.

7) Rice Milling

There have been substantial changes in the Egyptian market for rice milling during the 1990s as a result of sector liberalization and privatization of public sector mills. During the early 1990s, rice became one of the first agricultural commodities to be liberalized in Egypt. The government's 8 public sector rice milling enterprises comprised a virtual state monopoly with 88.2% of the milling capacity. Liberalization of the rice-milling sector resulted in substantial market entry by private sector firms. The rice milling sector is now highly competitive and vibrant. Private sector players dominate the industry. The privatized companies have recovered some market share, but seem destined to be small players in the industry. The large expansion of private sector rice milling capacity in Egypt has resulted in the eight public sector mills having a small share of total rice production, perhaps 15% of the total output (Carana, 2002).

Economic returns of growing rice increased relative to other crops, attracting substantial private sector activity. By 1997 private mills overtook public mills in milling capacity. Public sector milling companies rapidly lost market share to the private sector, and were operating well below full capacity amidst the intense private sector competition. By 1998/99, the private sector firms constituted 78.6% of the total milling capacity of the sector. Competition in the Egyptian rice-milling sector was therefore already thriving when the concerned holding company 7 out of its 8 rice mills (through ESAs) in 1998. The final Law 203 rice milling company was also sold (through ESA) in 2001. The Egyptian rice-milling sector is now highly dynamic and competitive, although this is more directly the result of market liberalization policies as opposed to privatization of state mills specifically. The new private sector projects in the market have been the prime contributors to a vast increase in Egypt's rice production and new levels of product quality that are now available to the consumer.

However, the holding company continues to be heavily involved in the management of the rice mills, and continues to provide implicit and explicit subsidies which raises the question of whether such firms are private or still controlled by the government. The privatized mills are presently providing the sector with redundant, un-needed milling capacity, although they are also providing employment for over 9,000 workers. Rice milling is an example of how privatization and liberalization can be successful from the perspective of the overall economy, even though the performance and value of the former state enterprise might be suffering (Carana, 2002). The rice mill sector remains highly competitive, and is apparently not particularly profitable. The profitable companies have other operations, particularly macaroni and animal feed plants. Sharkeya, for example, has a cattle feed mixing business in addition to its rice mills. All of the ESA rice mills are clearly operating below their installed capacity. Hence this defies our hypothesis that soft budget constraints allow more competition since in the case of rice mills the benefit of soft budget constraint were curtailed by heavy government's intervention.

The situation is different in the flour sector where partial liberalization of the Egyptian flour market during the mid 1990s has created fierce competition and over-capacity in the sub-sector for the 72% white bread. However, despite privatization of 3 of the government's 7 Law 203 flour milling companies in 1996, the market for the 82% dark bread remains largely unchanged. It is still heavily subsidized and regulated by the state.

8) Electronics and Home Appliances

Egypt's economic reform and privatization policies of the 1990s broke the monopoly of the two state owned companies involved in assembling televisions (El Nasr Television and Telemisr). Growth in the industry accelerated in the early to mid-1990s and the private sector soon established itself as the dominant force in the television sub-sector. Competition amongst Egyptian firms, which have been engaged in production/assembly and importing televisions under license from the major multinational television producers, spread rapidly during the 1990s. At present the market is dynamic and the selection of products available to the consumer is diverse in both brand name and quality. There are presently 10 private sector firms in the industry, one privatized, and several that are either still state owned under Law 203 or joint venture companies (hence classified as private, though not necessarily completely private). The composition of the market for televisions is shown in Table 14.

Table 14: Egypt's Leading TV brands and their Producers

TV Brand	Origin	Produced	Producer/Agency	Ownership
Goldstar	Korea	Locally	Int'l Electronics Co./El Nasr Co.	Private/State-Owned
NEC	Japan	Locally	Telemisr Com.	Privatized
Toshiba	Japan	Locally	Int'l Electronics Co./El Nasr Co.	Private
Goldi	Egypt	Locally	Int'l Electronics Co./El Nasr Co.	Private
Grundig	Germany	Locally	Int'l Electronic Co./El Nasr Co.	Private
Philips	Netherlands	Locally	Int'l Electronics Co./El Nasr Co.	Private
Daewoo	Korea	Locally	Banha Electronics Industries Co.	State-Owned
Samsung	Korea	Locally	Arab Organization Industries (AOI)	State-Owned
Samsung	Korea	Locally	El Tholathia Co.	Private
Prince	Egypt	Locally	Int'l Electronics Co./El Nasr Co.	Private
New Star	Egypt	Locally	Int'l Electronics Co./El Nasr Co.	Private
LG (Goldstar)	Korea	Locally	Telemisr Co./IGI Co.	Private/State-Owned
Sony	Japan	Imported	n.a.	Private
Panasonic	Japan	Imported	Baghdad Co.	Private
Sharp	Japan	Imported	Egyico	Private

Source: Carana, 2002

The privatization of Telemisr was undertaken in two separate transactions, during 1996 and 1999. The company has performed poorly since its privatization and has run up substantial losses since it experienced a complete ownership and senior management over-haul in 1999-2000. Given the new technology developments that emerged in the television sector during the 1990s, the disappointing performance resulting from the privatization of Telemisr has little impact on the quality and availability of goods and services available to the consumer.

In the case of other durable goods as washing machines and refrigerators, the industry has become highly competitive as a result of sector liberalization policies of the 1990s. Prior to early 1990s, the state held a 100% monopoly in the production and assembling of washing machines and refrigerators, through one major public enterprise, Ideal. There was no private sector competition either from imports or from domestic producers. With the advent of sector liberalization policies, Ideal's market share began to decline for both washing machines and refrigerators. The market itself started to become more vibrant however, as new private sector competitors started introducing the Egyptian consumer to some new products and services. Major industry multinationals such as Zanussi of Italy, and Turkey's

Arcelik started operating under license in the Egyptian market. Ideal was privatized and bought out by the Olympic Group Financial Investment Company in late 1997. The Olympic Group has absorbed Ideal into its own corporate strategies, downsized the operation of some of Ideal's less productive assets and opened new production facilities. The market for both washing machines and refrigerators is now highly competitive and Ideal has been recovering the market share that it lost prior to privatization.

In the refrigerator market, Ideal remains the dominant player in the market for low cost refrigerators (85% market share), and a leading player in the market for refrigerators as a whole (40% market share). Ideal now also provides a whole range of new, after sales services to the customer and its products are marketed as packages of delivery, technical support, insurance and refunds, as is common with producers in market economies. While the price of a washing machine or a new refrigerator has increased in Egypt since the time when Ideal operated under the public sector, the market has been transformed since that time and the consumer now benefits from an entirely different product (Carana, 2002).

In this market, the liberalization of the market did not bring in substantial benefits as long as the firms remained performing with hard budget constraints. Once, such constraints were relaxed and they started to enjoy full autonomy in management and financial transactions, their performance started to improve. Hence, it is important to point out that trade liberalization or opening up is necessary but not a sufficient condition for an industry to be more competitive. Sufficient conditions include enactment of an efficient competition law and enjoying autonomy in undertaking financial decisions (i.e. enjoying soft budgets).

Services and Public Utilities:

1) Telecommunications

Modernization, expansion and liberalization of Egypt's telecommunications services and infrastructure have become a national development priority. Among such liberalization moves is the enactment of Law 19 of 1998. Law 19 of 1998 stopped Telecom Egypt's monopoly and transformed it into a joint-stock company. Efforts by Telecom Egypt to find a strategic investor, to take a stake of up to 20%, have so far made little progress. The law established a regulatory body (TRA) to essentially balance the relationship between service providers and consumers. Nevertheless, the TRA is not completely independent since its board of directors is headed by the Minister of Communications and Information Technology.

In the field of cellular phones, the government-owned Egyptian Company for Mobile Services [ECMS] introduced the first Global Services for Mobile Communications [GSM] cellular network in Egypt in 1997. Eighteen months later, in May 1998, the government took the bold decision to privatize ECMS as well offer two new, competing licenses. Egypt now has two successful, fully private cellular operators, similarly with payphone and satellite operators. A third operator was expected to come to the market in November 2002 after the expiration of the four-year duopoly allowed by the licenses granted the two existing operators. This third entrant is expected to be a consortium of Telecom Egypt and a yet-to-be-selected international cellular (GSM) operator, which is still did not materialize. In addition there are dozens of private, innovative Internet Service Provider's (ISPs) (<http://www.internationalreports.net/middleeast/egypt2001/telecomsector.html>). However, a deal between Telecom Egypt and the two cellular phone operators was reached with the TRA where the introduction of a third operator was postponed without a definite date and Telecom Egypt bought 25% of the share in one of the existing cellular phones operators. In 2006 a third operator was granted a license to operate on a new technology starting 2007.

2) Banking Sector

In 2006 there has been 36 banks operating in the market compared to 61 banks that used to operate in 2001 in Egypt: 28 commercial banks including the four state-owned commercial banks, the National Bank of Egypt, the Bank of Alexandria, the Banque du Caire and the Banque Misr; 31 investment and business banks; and three specialized banks, one industrial bank, one real estate bank and one agricultural bank (the Principal Bank for Development and Agricultural Credit). In terms of ownership, there are seven public commercial and specialized banks, 35 private and joint-venture banks and 20 offshore banks.

The 61 banks operate via a network of 2,223 banking units throughout the country. Commercial banks are the most important subsector, holding about 78% of total assets of the banking industry. The four state-owned commercial banks dominate the sector, accounting for nearly 57% of total assets, and holding 70% of deposits and 59% of loans (Ghoneim, 2003 database for World Bank). Officially the level of non-performing debt in the banking system stood at around 16% in mid-2002 which is considered high by international levels. Unofficial estimates put non-performing loans at anywhere from 15-25%. The biggest problems are concentrated in the large government-owned banks, at least partly in response to the bad debt problem. However, the private-sector commercial banks have gradually increased their market presence and by 2000 accounted for 18.9% of credit services compared with 7.6% in 1995. The dominance of the public sector is even greater if the National Investment Bank (NIB) is included. The NIB holds the long-term

resources mobilized by the social security system of US\$4.5bn at end of fiscal 2001, and possesses roughly 25% of total bank deposits. Banking practices are conservative and services extended are often basic, although there has been a considerable expansion of retail services in recent years as the corporate sector has remained in recession (Economic Intelligence Unit, 2002).

In 2003 a new banking law was approved. The new law introduced several provisions related to prudent regulation (e.g. higher level of capital requirements). In fact, only a minority of domestic banks currently appears to meet the domestic bank requirement by any measurement which implies that the majority of Egypt's 58 private banks eventually will be forced to close, merge or otherwise consolidate. This might have a negative impact of competition if regulations that prevent the preference of the large four public banks and their privatization did not take place. However, as seen by some experts, there is no fear that such a decision will lead to monopoly as the consolidated and merged banks will be likely the small ones which need such type of action to be able to meet the fierce competition from foreign and dominant public banks (interview with Faika El Rifaie, *Ahram Weekly*, 2001).

The banking privatization program has been stalled by state reluctance to relinquish control. Public-sector banks are important tools of government policy. They offer unprofitable banking services to remote areas, finance agricultural crops, are major partners in the large national infrastructure projects and are the most significant buyers of T-bills and bonds. Moreover, it is only recently that the government has begun to comprehensively tackle the problem of the large portion of non-performing loans in the state banking sector. Moreover, while Law 155 of 1998 enables banking privatization to take place, there is no state body specifically responsible for its implementation and therefore the process can be interminably delayed by bureaucratic stalling. Nonetheless, a phased reduction of holdings by public-sector banks in their joint ventures with foreign partners has gradually taken place, while a number of international banks, including Société Générale, HSBC and Barclays, have acquired controlling majority stakes in their Egyptian joint-venture banks (Carana, 2002). In 2005 the governor of the Central Bank announced that the Bank of Alexandria, one of the four public banks will be privatized soon, whereas a major acquisition of the Bank du Caire by Ahly Bank was announced in 2005. The aim of such acquisition so as other policies adopted in the sector, as raising the capital adequacy ratio to 10% (higher than Basel II requirements) was decreasing the number of banks in Egypt targeting 36 banks instead of the 61.

As a prelude to the privatization of state-owned enterprises, the government revitalized its long-moribund stock exchanges in Cairo and Alexandria through Law 95 of 1992. The legislation reorganized the sector, provided incentives to investors and granted the Capital Markets Authority wide regulatory powers.

3) Insurance

Egypt's highly underdeveloped insurance market is dominated by four public sector insurance companies (one of which is a reinsurance company), which hold a market share of around 75%, although 13 other companies also exist (six of them are foreign). Annual premiums account for just 1.1% of GDP. The domestic insurance market was closed to foreign companies until May 1995, although they had been able to operate as minority partners in Egypt's eight free zones. However, Law 156 of 1998 removed the 49% cap on foreign holdings in domestic insurers, abolished the nationality stipulation for general managers and allowed the privatization of public-sector insurers, although investors taking a stake of more than 10% need approval from the somewhat conservative Egyptian Insurance Supervisory Authority (EISA). The market remains closed to foreign insurance intermediaries, but some liberalization of the sector in recent years has led to the entry of a number of major international insurers, including the UK's Legal & General and Royal Sun Alliance and the American International Group (AIG, which bought Pharoanic Insurance in early 2001). Valuation of the four public-sector insurance companies was completed by mid-2001, but no decision has yet been made on their privatization (Carana, 2002).

Section Four: Conclusion and Main Lessons Learned

The size of the private sector has been on an increasing trend since the start of 1974 Open Door Policy. There has been an increase in size in absolute as well as in relative terms. The large size of the government controlled sector has rendered a relatively small increase in the size of the private sector (after taking in account all government controlled sectors and not only public and public enterprise sectors) The process of privatization brought by the ERSAP has reinforced increasing the size of the private sector and it started to increase in absolute and relative size when compared with the public sector. In relative terms, and since the start of the privatization process the size of the private sector increased on average from 61.2% of GDP in 1991/1992 to 76.3% in 2001/2002.

However, the increase in the relative size of the private sector was not necessarily translated in a) enhanced competition and, b) increase in private activity undertaking. This has been mainly either due to one or a number of the following factors: less openness or limited trade liberalization, absence of competition law, or hard budget constraints due to interference of the government.

Regarding enhanced competition, we observed from the sectoral case studies, that a private monopoly in many cases have just replaced a public monopoly. In other cases, the inefficiency that used to prevail in the era of public sector domination was replaced by an era of mergers and acquisitions that led in many cases to high concentration ratios and anti-competitive behavior.

The “announced” or “published” increased size of the private sector was not always met by a real increase in the private activities’ undertaking. In many cases, the privatization was done on paper, but the government kept controlling the actions of the private firms. This was the case in many ESAs privatized firms in specific sectors (e.g. rice mills). Such situation occurred either when firms were facing hard budget constraints or the products they produced played some role of strategic importance. This proves our hypothesis that hard budget constraints of firms affect negatively the status of competition. On the other hand, we observed real private sector engagement when an anchor investor, in most of the cases it was a foreigner, took over. Hence, we are confident to conclude that FDI helped to enhance to role of the private sector vigorously when an anchor investor took over and less aggressively when it was allowed via franchising. Again this emphasizes our hypothesis that when budget constraints are relaxed (that is probably the case in anchor investor situation) the status of competition improves and flexibility in the structure of the market (in the sense of more players are available).

To sum up, it is worth mentioning that the size of the private sector has increased both in relative and absolute terms. There are some drawbacks of the “theoretical” expected benefits of increased participation of the private sector. The main drawbacks are represented in the absence of a competition policy which led in many cases to the inability to prevent anticompetitive behavior and the continued intervention of the government in the privatized firms’ management.

PART II: OVERVIEW OF SELECTED POLICIES AFFECTING MARKETS WHERE FIRMS OPERATE

Introduction

There are a large number of policies, rules and regulations that affect the performance of the private sector and the degree of competition in different markets. This part of the study attempts to pinpoint the major policies, rules and regulations that affect the performance of the private sector and the degree of competition in the Egyptian economy. Given the difficulty of the task of identifying all such policies and rules and regulations, we concentrate on the major regulations and policies that from our point of view can affect the performance of the private sector and the status of competition. We follow the definition of competition policy that experts in the field have agreed upon, namely: “Competition policy in this context is defined in the broad sense as consisting of two parts— One which is commonly referred to as antitrust or competition law and the other, which comprises micro industrial policies such as tariffs and non tariff policies, foreign direct investment , unnecessary government intervention in the market place and economic regulation designed to prevent anti-competitive business practices by firms. Both parts of the policy impact on economic agents in the market place.” (Khemani, and Dutz, 1995, for a similar definition see Hoekman and Marvoidis, 2002). This definition is in line with the Global Economic Prospects criteria for variables that affect the status of competition which identified imports, foreign direct investment, administrative barriers, state monopolies, and private barriers as the main criteria that affect competition (World Bank, 2003)

In Section Five, following this introduction we focus on the main rules and regulations that affect the performance of the private sector and inter-firm rivalry and this include the Competition Law and its different provisions, Consumer Protection Law, the Investment Law(s), the Privatization Law, the Trade Law, and finally the Small and Medium Enterprises (SMEs) Law. In this section we shed light as well on the Labour Law. Section Six is devoted to policies where we focus on trade policy, being the most important policy affecting competition. We mention the different aspects of monetary and fiscal policies that affect the performance of the private sector. Section Seven is devoted to the discretionary power allocated to the government and its different quasi governmental bodies whether in terms of polices and/or regulations that affect the performance of the private sector. The section deals also with the role of regulatory bodies in regulating the telecommunications and electricity sectors. In all the sections we combine our descriptive institutional analysis with quantifiable data whenever available in a comparative static manner (whenever the data allow) to trace the changes that occurred over time. Section Eight concludes and provides a snapshot of the lessons learned. The difference between the Public Sector and the Public Sector Enterprise is highlighted in appendix C.

Section Five: Major Rules and Regulations Affecting the Performance of the Private Sector and the Status of Competition in the Egyptian Economy:

Having identified the main rules and regulations to analyse we start by the anti-monopolistic provisions already existing in the Egyptian Criminal Law. We then move to analyze the main theme of the Competition Law. Investment Laws then follow. We then discuss impact of the Privatization Law, the Companies Law, and finally, the Small Enterprises Law on the performance of the private sector and the status of competition.

Competition Related Laws: Existing Anti-monopolistic Provisions, the New Competition Law, and the Consumer Protection Law:

The Criminal Law contains articles that deal with monopoly and anticompetitive behavior, e.g. articles 345 and 346. There was even a legal case in 1910 against monopolistic behavior of an owner of four mills (Mohieldin, 1997). However by time such law was ineffective due to lack of enforcement and changing economic conditions.

The Government of Egypt (GOE) started to think about having a comprehensive competition law in 1995. By 1997 the first draft was ready, nevertheless several impediments deterred it from entering the Parliament. By 2004 the draft No. 17 was still discussed. Finally, in January 2005 was the Egyptian competition law introduced with the title “Law of Protecting Competition and Preventing Anticompetitive Practices”. Several interpretations have been mentioned as reasons behind the delay of enacting such law. Some experts have argued that the main reason behind such delay is the government itself due to the large size of the public sector and its reluctance to affect it by a competition law (Moheildin, 1997). Others have argued that in addition to the government’s reluctance, there is as well the business community reluctance for enacting such law and given their power in affecting policy makers, it is difficult to expect that such law will appear soon (Ghoneim, 2002a). The adopted version of the law follows to a large extent the model law of UNCTAD (UNCTAD, 2003). It specifies the anticompetitive behaviors and the abuse of dominant position as the main issues considered to be illegal. Anticompetitive behavior includes the conventional measures of fixing prices, manipulation of prices, restraints on distribution, geographical market sharing. The dominant position is specified by a threshold of 25% (down from 35% and 30% in earlier drafts) which constitutes a major problem for business community which view it to be very low threshold. The law adds to the 25% threshold, the ability to influence the prices or the amount of products available in the market without the competitors having the same ability. The law includes only financial fines but no imprisonment. Moreover, the law specifies the establishment of the Competition Authority to be in charge of implementing the law. The Authority is independent, nevertheless, it still follows the Prime Minister, where the former drafts have shifted the Authority affiliation between falling under the auspices of the Prime Minister, Minister of Foreign Trade, and Minister of Supply and Internal Trade. However, in practice the Prime Minister has delegated the Minister of Trade and Industry to be in charge of the law. Other provisions of the law are

traditional and the law adopts a mixture of per se and rule of reason approach, though the per se is the more dominant approach adopted. The Authority is responsible for cases' investigation, data collection, policy advocacy, and undertaking the necessary market research. The law applies to both public and private sector and excludes all public utilities. Moreover, it gives a discretionary power to the Prime Minister to decide upon activities that fall in the private domain and undertake anti-competitive behavior to be excluded from falling under this law if they generate benefits higher than the harm they cause. In addition, the law allows the Prime Minister and the Cabinet with discretionary power to fixing of prices by the Cabinet for "basic" goods. This is considered a major drawback of the law, since it gives room for non-transparency. Another major drawback of the law is the absence of an ultimate objective of the law (whether it is economic development, economic efficiency, or consumer protection). The law lacks identifying a clear relationship between the Authority and the regulatory bodies, so as well the relationship between competition and intellectual property rights. It does not deal with mergers and acquisitions. At this stage it is very difficult to assess the appropriateness of the law, since the Competition Authority has started to function only in April 2006 and investigation has been carried in only a handful of cases which does not allow to test the effectiveness of the law in reality.

The impact of the law on the performance of the private sector is expected to be limited due to the absence of the other pillars of a competition policy (see Ghoneim, 2002a). For example, the trade policy continues to be restrictive and non-transparent, though have been further liberalized by end of 2004 where the simple average tariff has been lowered from 14% to 9% (though the WTO states that it has reached 20%, see WTO, 2005) and number of tariff bands has been narrowed down from 27 to 6 (see below).

A new law for consumer protection was approved in 2006, and hence its assessment is rather difficult especially that the Authority responsible has not yet started to function. The lack of human capacity in this field when combined with absence of data is not expected to result in a positive outcome. Besides, as has been shown in the first part of the study, the Egyptian markets are characterized by high level of concentration, hence specifying the 25% as a threshold for dominant position is considered low. The same expected humble impact of the law on the performance of the private sector is likely to be repeated regarding the effect of the law on the status of competition due to the same reasons aforementioned.

Investment Law(s):

Egypt had three main investment laws starting from the Opening Door Policy adopted by GOE since 1974. The need for changing the law arose each time either due to the incompatibility of the law provisions with the changes happening in the domestic environment and/or the changes happening in external environment which required a similar change in the Egyptian legislation to adapt to such world wide changes.

Law 43 of 1974

The core Investment Law which was set mainly to attract Arab Investment was Law 43 of 1974 amended by Law 32 of 1977. There were several main provisions of this law that intended to enhance the private investment in different sectors (manufacturing and non manufacturing¹). The main basic features included; the establishment of the General Authority for Investment (GAFI) to be the responsible governmental body aiming at enhancing private investment in Egypt; the establishment of the free zones (public and private) where firms operating in such zones are exempted from all kind of taxes for specific time periods; the provision of extra tax exemptions for firms operating in specific activities and/or geographical areas and; the equalization of tax treatment among domestic and foreign investors. Moreover, there were other restrictions. For example, Law No. 43/1974 provided the basic legislative right for the GOE to authorize, on a selective basis, technology transfer through joint ventures. Thereafter technology was one of the main factors taken into account when evaluating applications for investment projects.

Whether the law was successful in attracting more foreign direct investment (FDI) and especially from the Arabs can be shown by tracing the following data as shown in Figure 1. where there has been a massive increase in FDI inflows due to the open up of the Egyptian economy and the investments directed to the oil sector. The law represented an important signal for the outside world as well as domestic private investors that the era of nationalization is over² and that there is a new era aiming toward more engagement of the private sector in the different activities. Hence, even if we disregard the results of the law in enhancing the role of the private investment (domestic and foreign), the signal it gave regarding the commitment of the GOE in ending the nationalization was clear and

¹ The activities included:

Industrialization, mining, energy, tourism, transportation and other fields.

animal production, water resources, and the reclamation and cultivation of barren and desert land.

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;

Investment companies which aim at utilizing funds in the fields enumerated in this law.

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 Arabic Republic of Egypt. They may also finance Egyptian foreign trade transactions.

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;

Construction activities in regions outside the agricultural area and the perimeters of existing cities:

Construction contracting activities undertaken by Joint Stock Companies in which there is a minimum Egyptian capital participation of 50%.

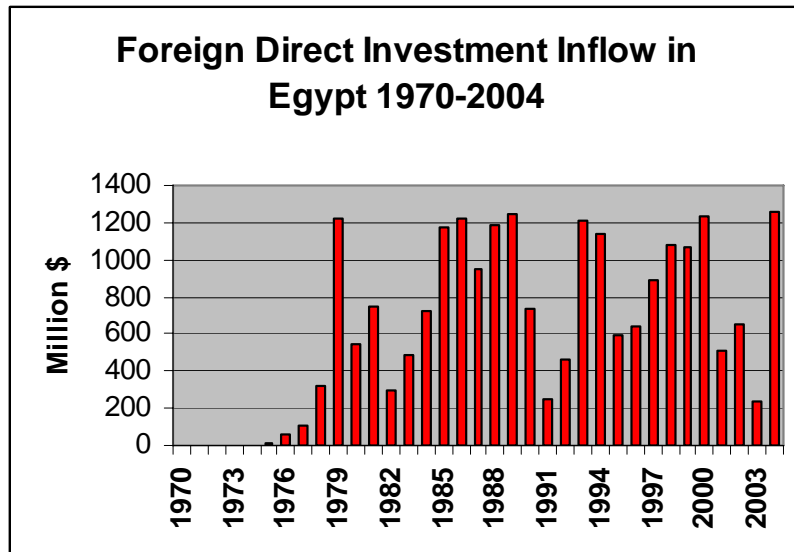
Technical consulting activities in the form of joint stock companies in partnership with foreign international consulting firms provided that they are related to any project within the fields of activity mentioned herein and that their activities are approved as an integral part of the project by the Authority's Board of Directors on a case-by-case basis.

² Article 7 of law 32/1977 states that : " Projects may not be nationalized nor confiscated. The assets of such projects cannot be seized, blocked, confiscated nor sequestrated except by judicial procedures .

effective, regardless of its impact in increasing the level of private sector participation in the different economic activities. The law introduced some flexibility in the labour regulations where according to its articles and provisions³ it exempted firms established under this law from certain rigid labour regulations, hence trying to introduce an element of flexibility which could have positive impact on entering the market and have spillover effects on competition as well.

³ Article 10 of law 32/1977 states that : “ projects enjoying the provision of this law shall not be subject to law No. 78 of 1973 in connection with the conditions and procedures for electing labor representatives to the board of directors of public sector organizations, joint stock companies, and private associations and establishments.

Figure 1: Foreign Direct Investment Inflow in Egypt 1970-2004



Source: UNCTAD online

database, 2006

Law 230 of 1989

Law 230 of 1989 came into effect to ensure that the changes carried out by the former Investment Laws with regards to enhancement of the role of the private sector's participation is rather emphasized, however the emphasis is no more on the Arab investors but rather on all foreign investors as well as domestic investors. In fact, it can be argued that the law was initiated to emphasize to domestic as well as foreign investors the persistent interest of the GOE in the private sector taking the lead especially after the humble outcome brought by the former law in terms of enhancing the role of private sector and increasing the level of private investment. It included additional provisions that aim at encouraging private sector. The most important provisions aiming toward such objective included the elimination of price controls and profit restrictions⁴.

⁴ Article 9 of law 230/1989 states that: "the products of the project are not subject to the compulsory pricing and profit limitations. It is impermissible to impose any charges, financial obligations or the like on the projects, prejudicing the principle of equality between them, and the private sector projects which work in the same activity, and those which are established outside the scope of this law. This equality shall be realized gradually in the main manner organized by the executive regulations.

The cabinet council in cases of necessity may exclude certain fundamental products from the provisions of the first paragraph of this article while seeking guidance in its economical cost.

Law 8 of 1997

The Law 8 of 1997⁵ represented part of the package of the Economic Reform and Structural Adjustment Program (ERSAP) adopted by Egypt since 1991. It confirmed the commitment of the GOE toward adopting a free market policy and giving the private sector the lead by emphasizing that firms and projects registered under this law (Articles 8 and 9) cannot be nationalized, confiscated or sequestered. It included several provisions that aimed toward a) more generous tax breaks, b) widening of sectors covered by Law to benefit from tax incentives⁶, c) introducing the factor of special geographical incentives where the government provided additional benefits if investors decided to invest there, and d) emphasized the national treatment of foreign investors (for a full discussion and analysis of this Law see UNCTAD, 1999, though the document is more of a call for promoting investment in Egypt rather than a real assessment of the law and its different provisions) and provided a more generous treatment of firms located in free zones⁷. The main additional advantages of this law compared to the previous investment

5 In fact the basic law governing the establishment and operation of companies in Egypt is the Companies Law No. 159 of 1981. It sets out the rules and procedures for incorporation in Egypt and regulates taxes, fees and employment rules. Foreign companies may incorporate under the Companies Law, but there are some articles that limit foreign ownership. However, with the enactment of the Investment law and its more generous tax treatment a large number of the private domestic firms as well as majority of foreign companies have chosen to register under Investment Law No. 8. Moreover, Egypt allows 100 per cent foreign ownership in investment fields specified under Investment Law No. 8. Businessmen investing in any other sector not covered by this law will operate under Companies Law 159. Under the Companies Law, corporations must initially publicly offer shares of at least 49 per cent of the company to Egyptians for one month, and only if there are no subscriptions by Egyptians, may foreigners purchase the majority of shares- Ultimately, under Law 159, companies may also have 100 per cent foreign ownership. The Companies Law also sets minimum capitalization requirements for joint stock companies. In addition, Under Companies Law 159, the majority of directors must be Egyptian and employees must be represented on the board. Investment Law No. 8 does not establish any requirement on the minimum percentage of Egyptian employees. Companies incorporated under Investment Law No. 8 regardless of the level of foreign ownership, have the right to possess and own buildings and land as necessary for exercising and expanding their business which is not necessarily the case if the firm is registered under other laws and regulation. (UNCTAD, 1999).

6 The activities covered are the following: land reclamation; fishing, poultry and animal production; industry and mining; tourism - hotels, motels, villages, tourist transportation -; maritime transportation; refrigerated transportation and related services, air transportation and related services, housing; real estate development; oil production and related services; hospitals and medical centers that offer 10 per cent of their services free of charge; water pumping stations, electricity, roads and communications; venture capital; computer software production; projects financed by the Social Fund for Development; leasing; risk capital and guarantees for subscription in securities. With the executive decree of August 1997, petroleum refining and cinema production were added to the fields of activity for investment and in 2003 another executive decree added the activity of marketing and publicizing for areas development and for attracting investors in the fields of land reclamation and cultivation, tourist and industrial development, and inland Nile and dry ports. Such activity was further subdivided into 9 sub activities.

7 Privileges, incentives, exemptions and guarantees include the following:

1. Freedom of selecting the investment activity.
2. Unrestricted nationality of capital; the investment law provides for the unrestricted participation of Egyptian, Arab, and foreign capital in the establishment of projects in free zones.
3. Unlimited capital; the law sets no limitations on the size of capital invested in a project, enabling project founders to determine optimal project size according to desired capacity and output.
4. Freedom of legal formation; (individual project – partnership – joint stock company – branch of foreign company,...)
5. Freedom of repatriation of profits and invested capital.
6. Freedom of importation from domestic or foreign markets, and such imports are exempted from import regulations applicable within the country.
7. Freedom of operation on behalf of other projects in order to utilize excess capacity available within industrial projects.
8. Freedom of pricing of goods and profit ceiling.
9. Providing foreign investors with residence and work permits.
10. Capital assets are exempted from custom duties and all import procedures: all articles, supplies, machinery and necessary means of transport (except passenger cars).
11. Imports and exports are exempted from custom duties, sales taxes, other taxes and duties and all import procedures prevailing in Egypt.
12. Free zone projects and dividends earned not subject to provisions of tax and duty laws prevailing in Egypt throughout the lifetime of the project.
13. Exemption from custom duties on domestic components in case of exporting goods to domestic and local markets.
14. Trade in transit goods with a fixed destination is exempted from the annual duty on the value of goods entering and leaving the free zone.
15. Exemption of imports from local market from sales tax.

laws are the following: Investments are approved automatically for projects in one or more than one area. The following categories still require prior approval from interested ministries before an investor contacts GAFI: all military products and related industries; tobacco and tobacco products ; any investment in the Sinai; Opening up of the fields of activity which were previously restricted to foreign investors and these include infrastructure (electricity, water, transport), financial leasing, oil and gas services; and that the products of the firms established under this law are not subject to the compulsory pricing and profit limitations.

Law 8 of 1997, despite its generous offers for private investors failed to attract the private investment (domestic and foreign) as expected. Several red tape measures and bureaucratic obstacles were mentioned by investors when it came to implementation of the law concerning the dispute settlement mechanism, and the non extension of exemption to a number of service activities (see Al Ahram newspaper, several issues) This required a further action by the government. This has been translated in the amendments of the law enacted in year 2003 and the enactment of a Law for Special Economic Zones in 2002.

Amendments to law 8 of 1997 have been introduced to overcome some of the loopholes of the law and to be in line with the changes occurring in the business environment both domestically and worldwide. The amendments aim mainly at accelerating the dispute resolution process, reducing transaction costs faced by the investor through the establishment of One Stop Shop, and consolidating the decisions related to investment under the authority of GAFI, rather than being scattered among different governmental agencies and governorates. It also aims at streamlining the lengthy procedures that the investor has to undertake to establish his enterprise regarding the authority he deals with (confined now to the GAFI) and regarding time (where it has been scaled down). Moreover, it is now allowed for firms registered under Law 8 of 1997 to have their capital issued in terms of foreign currency. The implications of such amendments on enhancing the role of the private sector, inter-firm rivalry and the status of competition are expected to be positive, however not to a large extent. The reasons for such judgment are that the law was not able to overcome all the bureaucratic and red tape measures affecting negatively the business environment regarding the engagement of the governorates in a number of issues related to investment. Nevertheless, there is still a positive spillovers expected to arise from reducing the needed time of registration, which creates competition by reducing the transaction costs of establishing a business. Such amendments to the Law 8 have been introduced in 2004 by adding a separate chapter which adopted the idea of one stop shop to be created in GAFI with the main aim of reducing the time needed for procedures.

Law for Special Economic Zones (Law No. 83 of 2002)

This law was designed to combine the virtues of free zones and investment law. Projects registered under this law are considered to be inland projects⁸ and their products acquire

8 According Article 2 of the law, the definition of a special economic zone is "a geographical district established outside the boundaries of cities. Special agricultural, industrial and services projects are established in such geographical districts and have the ability to compete with their comparators in the world market. It can be the case that such zones have their special port (air or sea or land port) and it has its own custom, tax administration undertaken by a certain specified authority

the Egyptian origin (versus the case of the free zones where the projects working in such zones are considered off land projects) and at the same time avoid the cons of the investment law 8 of 1997 in terms of bureaucratic procedures. Moreover, the projects registered under this law enjoy a special tax treatment that is characterized by being simple, harmonized and enjoys low tax rates. The impact of the law on the performance of the private sector cannot be assessed as very limited time has elapsed to investigate its impact (the executive decree is still not issued).

The impact of investment laws on the performance of the private sector has been positive, though limited. Despite the fact that there has been problems in the implementation of such laws due to bureaucratic and red tape measures, the laws themselves aimed at enhancing the role of the private sector and provided private enterprises with a number of facilities that aim at encouraging private sector participation. The direct impact of such laws on investment cannot be easily determined, however, its indirect effect on competition and inter-firm rivalry is not clear. One would have expected that such laws enhance competition by enlarging the size of the private sector and providing different incentives for increasing its role. But this has not been always the case. For example, one provision of Law 8 of 1997 provides extra tax incentives for firms with capital above 200 million L.E. in the field of film production. This has been challenged to be against the constitution since it invokes discrimination among the firms regarding their financial treatment. Moreover, it encourages the establishment of large firms either through merger and acquisitions or other forms which could have a negative impact on competition and inter-firm rivalry (see Ghoneim, 2005). Hence the impact of investment law(s) on enhancing competition and inter-firm rivalry cannot be determined easily due to the existence of a number of provisions which discriminate among firms according to their size, the procedures and treatment which differs by geographical locations and activities, and finally the problems related to enforcement of the laws which might have a larger negative impact on new and /or small firms when compared to large and/or incumbent firms.

The Privatization Law

The Privatization Program started with the passage of Law 203 in June 1991, further corporatizing public enterprises, with shares held on behalf of the government by 27 holding companies (down to 17, then 16 and finally 10) to which the public sector enterprises were allocated on the basis of specialization or industry sub-sector. 314 companies were to be privatized while 85 were excluded from the first phase (Carana, 2002). By issuing Law 203 of 1991, public sector enterprises were rendered as independent economic entities, and a framework for their management was established comparable to that of the private sector. The holding companies were responsible for approving the business plans of the public enterprises, assessing their restructuring needs, and initiating the plans for their privatization. This included the gradual elimination of ties between the goals of public sector companies as profit oriented businesses, and the state budget's objectives at the macro-level, as well as those of other governmental bodies. Moreover, excess labor can no longer be assigned to companies, and selling prices for products—except pharmaceuticals—and purchase prices for raw materials are no longer dictated by the government authorities. In addition, a Public Enterprise Office

(PEO) was established in November 1991 and then constituted a part of Ministry of Public Enterprises (MPE)⁹. Furthermore, the Capital Market Law 95 of 1992 was in turn issued to regulate the stock market and introduce a framework for trading. This was followed by setting government guidelines for privatization which were published in 1993 and updated in 1996. Different methods of privatization were put in place which differed among sectors (no specific sectors were excluded with the exception of strategic industries) so as well within the sectors themselves. The different methods included: Majority Interest Privatization Schemes which involved selling, on average, a substantial portion—about 78 percent—of the government's stake in the enterprises, well above the minimum of 51 percent, to assure investors about the government's seriousness in this area and Minority Interest Privatization Schemes which involved an average divestiture by the government amounting to about 34 percent (that were listed in Table 10 of the part I of the study).

In 1993, the PEO published an action plan entitled “General Procedures and Guidelines for the Government Program of Privatization, Restructuring and Reward System” which can be considered the only formal document that reflects the government’s objectives and commitment. There have been several bodies included to regulate the privatization process. They included:

The Quattro Committee (QC) is comprised of the PEO, Capital Markets Authority, the Central Auditing Committee and the Cairo Stock Exchange. The QC’s responsibilities concerning initial public offerings (IPOs) include suggesting and approving privatization strategies, reviewing technical valuations, evaluating market values of companies, and suggesting fair prices for IPOs.

The Holding Companies (HCs) were created in 1991. The ownership and management of 314 PEs were transferred from the various Ministries to 17 HCs and then down to 10. The portfolio of these HCs were designed to eliminate sector monopolies, introduce competition, and ensure that each HC had an array of enterprises with differing profitability and sales potential. HCs are primarily responsible for organizing the sale of their constituent PEs (known as affiliated companies)

The Capital Market Authority (CMA) established in 1979 is a government organization, which reports to the Minister of Economy. Pursuant to the Capital Markets Law No. 95 of 1992, the CMA was given sole control over supervising, reforming, and modernizing the Cairo Stock Exchange. The CMA is charged with market development, supervision of trading, broker licensing and general market surveillance.

The Share Pricing Committee (SPC) is comprised of the CMA and the Cairo Stock Exchange. It is the sole authority to review and approve the share price offered in the IPO process.

The Central Auditing Authority (CAA) is an independent government body reporting directly to the People’s Assembly, which audits the performance and evaluation of companies that are at least 25% publicly held. Furthermore, it reviews valuation studies undertaken by HCs and QC’s (Khatab, 1999).

⁹ The Ministry of Public Enterprises (MPEs) established in October 1993 is responsible for all reform aspects of public enterprises including privatization, restructuring, labor and legal issues. The Public Enterprise Office (PEO) is an independent body created to assist the Minister of Public Enterprises. Its main responsibilities are to act as a coordinator for the privatization and restructuring programs, and to initiate and monitor plans for the privatization program. Although, the PEO has no executive authority, it is a central driving force and a link between the government and the Holding Companies.

Currently, neither the HCs nor the PEO office are directly empowered to approve the sale of an affiliated company, nor can they insist upon adherence to standardized sale procedures. This dispersion and diffusion of responsibilities and accountabilities among the various government organizations creates in many instances confusion and hindrances to the privatization process. Prospective investors find difficulty in getting reliable and current information of companies to be privatized.

Also, other Ministries are responsible for undertaking their reform programs. For instance, the Ministries of Transport, Telecommunications, Power, etc. are directly responsible in undertaking their own respective privatization programs. The public sector enterprises under the ownership and control of these Ministries are outside the legal framework and process of the MPE (Khatab, 1999). In fact regulatory bodies have been established in the case of telecommunications and electricity in the early 1990s to regulate the sector after several privatization initiatives have taken place in both sectors in 1998 either through BOOT operation or through conventional privatization methods mentioned in the first part of the study (UNCTAD, 1999).

Implementation started slowly, but privatization activity accelerated in 1996 when assets worth over \$800 million were privatized in addition to \$1 billion of unutilized fixed assets, local governorates' assets, joint venture companies and other miscellaneous activities. In 1998, the IMF has ranked Egypt among the top four emerging markets in terms of the pace of privatization. Egypt's privatization rate of about 1.5 percent of GDP per year is bettered only by Hungary, Malaysia and the Czech Republic (IMF, 1998). Different methods of privatization were used in different sectors such as tourism, manufacturing, textiles, and housing. However, as stated in Part I, privatization experienced a slow down starting 1998 due to bad economic conditions and recession. Starting July 2004, the privatization started to accelerate with the change of the government.

The studies conducted to investigate the impact of the privatization program on the performance of the private sector have showed that there have been positive significant achievements on variable indicators including the financial performance of the privatized firms, restructuring of firms, and the lay off of labor. The impact differed significantly from one method adopted to the other and among different sectors. The main conclusion was that majority interest privatization showed the best results whenever the management factor was changed. On the other hand, the minority interest privatization showed humble results due to the continued influence of the governmental management. Also in cases of majority interest privatization where the state still played an active role without real effective change in management (e.g. through its residual shares or close relationship with ESA's that have not finished paying for their shares) the good results were rather absent to a large extent (see Carana, 2002). The impact of privatization on competition and inter-firm rivalry differed significantly from one sector to another (see three case studies in Part IV of the study). In some sectors as cement privatization led to collusion among firms and high concentration, whereas in other sectors as home appliances

privatization enhanced competition and inter-firm rivalry. Impact of privatization on competition and inter-firm rivalry showed mixed results.

Regarding the impact of privatization on labor layoff, the existing studies point towards evidence that the impact was mild and not significant. The size of the overall public sector labor force as a percentage of Egypt's total work force (which has grown numerically during the 1990s and is presently estimated to be around 20-22 million) has more or less remained constant, around 37%. However, the size of the labor force of the Law 203 portfolio has decreased by more than half during the decade of Egypt's economic reform. In 2001 the number had decreased some 453,000 employees since 1991, whereas at the same time, the Egyptian economy was creating almost an equivalent amount of jobs during the period 1991-2001. The evidence shows that most of the reduction in employment is taking place prior to privatization as part of the restructuring. Pre-privatization employment levels have been maintained at many privatized firms, and in a number of cases new job opportunities have been created. No specific studies were conducted to study the impact of the privatization program on the status of competition. However as it can be seen from the data it can be concluded that the privatization program increased the size of the private sector in absolute terms, whether measured by investments as shown in Table 1 or ownership status (Carana, 2002), nevertheless as a percentage of GDP, the government and government controlled activities' share remained constant since the portfolio of privatized firms was small when compared to the size of the governmental controlled activities, in addition to the fact that that the majority privatized firms were included under the category of private sector despite that this fact does not reflect reality in many instances where the government remained in control and owned shares in the capital of such privatized firms (see Part I of the study).

Table 1: Private Investment for Economic Plan

Year	Values in LE million					
	1990/91	1995/96	1999/2000	2000/2001	2001/2002	2002/2003
Agriculture	959	2412	4921	5309	5848	3183
Industry & Mining	2701	5553	3791	7142	5500	Mining & Crude Oil (2776)
Petroleum & Products	2032	3483	5800	6103	7500	Industry & Petroleum (4335)
Electricity	0	120	1079	777	2002	Electricity, Water & Natural Gas (5665)
Construction	206	521	1010	1250	1330	1420
Total Commodity Sector	5898	12089	16601	20581	22180	17379
Transportation & Suez Canal	960	2751	2700	4500	4930	5371
Trade & Finance & Insurance	285	630	753	792	700	701
Tourism	729	1269	1598	2500	2500	1800
Total Production Services	1974	4650	5051	7792	8130	7872
Housing & Real Estate	2363	3500	8297	8438	8273	6007
Utilities	0	0	0	0	0	..
Education Services	33	155	560	700	800	735
Health Services	49	119	300	830	700	707
Other Services	79	187	100	128	100	88
Total Social Services	2524	3961	9257	10096	9873	7537
Grand Total	10396	20700	30909	38469	40183	32788

Source: Ministry of Planning (2005) unpublished data.

Moreover, there are other explanations for the limited impact of privatization on expanding the relative role of the private sector. As stated in IMF, 1998 that the overall contribution of the public sector in GDP has remained virtually unchanged in the last decade. The relative stability of the public sector share can be analyzed through decomposition into a *privatization* effect and a *composition* effect. According to this type of explanation, the privatization effect relates to the change in the contribution of the private sector within each sector of activity. In this regard, the private sector's role has been increasing in virtually every sector except petroleum, with relatively large increases in

participation in industry, mining, construction, trade, and finance. Nevertheless and despite the increasing privatization of economic activity, owing to the composition effect, the overall output of the private sector in the economy has not posted proportionate gains. This is mainly because output growth has been skewed toward sectors where the public sector has a higher-than-average share of activity and away from sectors where public sector activity is low. The composition effect is most pronounced in relation to agriculture, which is almost entirely in the hands of the private sector, where output has declined from 20 percent to 16 percent of GDP. By contrast, in the Petroleum Sector, where the public sector is increasingly dominant, the share of output has increased from 3% in 1987/88 to 5.3% in 2000/2001 (CAPMAS, 2002). Moreover, the composition effect has worked in favor of raising the aggregate share of the private sector in both government and social services sectors whose weight in GDP has declined modestly (see Khatab, 1999, IMF, 1998).

Regarding the status of competition and inter-firm rivalry, we can observe that privatization's impact on competition cannot be determined. On the one hand, the number of mergers and acquisitions have been on a rising trend since 1996 as shown in Table 2. On the other hand, the number of registered firms in the different activities increased on yearly basis so as well the number of firms existing from the market (see Table 3).

Table 2: Number of Mergers and Acquisitions (1996-2006)

Year	Mergers	Acquisitions
1996	7	1
1997	3	6
1998	1	3
1999	1	44
2000	1	29
2001	0	17
2002	0	14
2003	0	14
2004	0	9
2005	0	37
2006	0	40

Source: Cairo & Alexandria Stock Exchange, Monthly Bulletin, different issues

Table 3: Number of Enterprises and Exit Cases (1990-2002)

Year	Number of Enterprises				Number of Exit Cases (Bankruptcy)		Industrial Companies ²	
	Under the Investment Law 8/1997	the Law	Under the Companies Law 159/1981	the Law	Total ¹	Companies	No. of New Companies	Percentage to Total No. of Enterprises

19			697	..	556	
96	316	1519				30%
19			715	..	554	
97	1045	1982				18%
19			712	..	595	
98	2187	1969				14%
19			625	27	766	
99	2176	1718				20%
20			340	47	814	
00	1873	1385				25%
20			169	27	647	
01	1580	1192				23%
20			103	22	589	
02	1414	872				26%
20			54	9	1266	
03	1392	997				52%
20	1434	956			1338	
04			45	11		56%

¹: including companies and individual cases

2: Companies registered in Industrial Registrar

Source: MOFT, *Monthly Bulletin*, various issues & General Organization of Industrialization

As shown from the table above, the industrial sector enterprises remained almost constant as a share of total enterprises where the percentage of new industrial projects registered out of total enterprises (industrial and non industrial remained declined from 30% in 1996 to 26% in 2002, with a drop of 16% in 1998. We can interpret from this data that percentage of industrial projects did not increase due to the lack of laws and policies that aimed to enhance investment and competition which is an expected result as industrial activities were not given a special treatment, despite the lower tax burden on manufacturing activities when compared to services as shown below.

Moreover, as the first part of the study has shown, the status of competition differed from one sector to the other. In general, where privatization took place and the government remained in control of management the degree of competition did not change much. This is in contrast with the case where the privatization led to change in the management and the private sector took charge of it, we find that the degree of competition was enhanced to a large extent. This is in line with the main theme of the study which asserts that liberalization and reform acts did not necessarily increase the state of competition. Moreover, such interpretation of the results emphasizes our hypothesis that acting under a hard budget lessens the degree of competition, which is the case with government controlled firms, where as a shield of acquiring additional losses and facing efficient firms, the only way to survive is to lessen competition in order to achieve abnormal profits arising from a monopolistic or oligopolistic market structure that enable them to survive the inefficient economic performance.

With the cabinet change in July, 2004 the portfolio of privatization was transferred to a newly created Ministry entitled Ministry of Investment. One of the main aims of the establishment of this ministry was accelerating the process of privatization (see Part I for further details). In fact the Minister of Investment has raised the slogan of “Managing the Public Assets” instead of privatization motto. The pace of privatization has increased significantly as has been discussed in Part I, however this was not translated by any means to higher degree of competition.

Labor Law (Law 12 of 2003)

The Labor law (Law 12 of 2003) provides comprehensive guidelines for the recruitment, hiring, compensation, and termination of employees in Egypt. It provides increased flexibility for firms in the hiring/firing process, a key concern of domestic and foreign investors. It also outlines a number of reporting, management, and workplace safety requirements that employers must meet. It establishes a limited right of employees to strike, as well as rules and guidelines governing mediation, arbitration, and collective bargaining between employees and employers. Non-discrimination clauses are included and the employment and training of women and eligible children is regulated by the law in accordance with labor-related International Labor Organization (ILO) conventions. The law also creates a national council to discuss and establish a national minimum wage policy. The labor law came into effect on July 7, 2003, and hence studying the impact of such law on the performance of the private sector and the status of competition is early to identify, at least from a practical point of view. However, from a theoretical point of view, the main objective of the law is to overcome the rigidity in hiring and firing labor and hence to expand the role of the private sector. This in turn should enhance the status of competition in the Egyptian economy. Nevertheless, it should be pointed out that the rigidity of the labor market did not present a major obstacle from the business community as there were always other means to overcome them (See for e.g. World Bank, 1994; Galal, 1996; Fawzy, 1998 and; Ghoneim, 2000 for the major impediments affecting the performance of the private sector in Egypt). In the studies mentioned above which depended on filed survey the hiring and firing procedures of labor did not present a major impediment. Table 4 identifies that hiring and firing of labor never represented a major obstacle for the private sector.

Table 4: Ranking of the Constraints to Growth of the Business Environment in the Preceding Studies*

	World (1994) (Sample firms)	Bank 200	Galal (1996) (Sample firms)	45	Fawzy (1998) (Sample firms)	154
Level of taxes	1		NS		NS	
Taxes Administration	2		2		1	
Cost of finance	3		NS		5	
Demand	4		6		6	
Bureaucratic Procedures	5		NS		NS	
High costs and/ or access to inputs	6		4		7	
Availability of skilled technicians	7		NS		3	
Competent workers	8		NS		3	
Access to credit	9		3		5	
labor regulations	10		5		3	
Policy uncertainty	11		1		4	
Property Regulations	12		NS		4	
Infrastructure weakness	13		NS		2	
Size relations/Govt.	14		NS		NS	

The degree of severity is ranked where 1 identifies the most severe constraint and 14 is the least constraint. Caution should be taken when comparing the results as the studies differed in naming or lumping some constraints together. The three studies have emphasized that the severity of constraints differed when the size of the firms and the fields of activity are taken in consideration. What is presented in the table is the average of the results obtained.

NS: not studied.

Source: Ghoneim (2002b)

Small Enterprises Law (Law 141/2004)

The small and medium enterprises (SMEs) contribute extensively to the GDP in Egypt. Some estimates have put the figure of SMEs to represent more than 99% of the enterprises in the Egyptian economy (World Bank, 1994, Mobarak, 2001). Some other studies have estimated SMEs in the manufacturing sector represent more than 96% (Sisken, 1996, Ghoneim, 2002c). Given the great importance of the contribution of SMEs to the Egyptian economy, and taking in consideration the high transaction costs that overwhelm their activities, the GOE decided to have a special law for small enterprises which has been enacted in December 2003 (the definition adopted for small enterprises is having capital of less than or equal to one million Egyptian pound and employing maximum 50 employees and have been registered in the Commercial Registration). The main theme of the law is to provide small enterprises with special treatment regarding tax treatment, public procurement, land provision. The main objective is to lessen their transaction costs, and hence enhance their contribution in the GDP.

The implications of the law on the performance of the private sector, inter-firm rivalry, and the competition status are very early to judge from a practical point of view. Nevertheless, it can be argued that from theoretical point of view and if the law was correctly implemented without facing bureaucratic measures that it will have positive implications on the performance of the private sector and the degree of competition in the Egyptian market. Some might argue that the law creates discrimination between firms according to their sizes, however this situation is not likely to materialize for two main reasons: 1) the large size of small enterprises in the Egyptian economy according to the criteria of the law, which in some cases of other countries may incorporate medium enterprises as well; 2) the large amount of transaction costs of doing business which might hinder small enterprises from undertaking any activity. Hence, this law, if properly implemented might help to level the playing field among small, medium and large enterprises to a certain extent.

However, the business community continues to cite a number of obstacles that affect their performance and the status of competition. For example, the process of business licensing is cumbersome and costly where it represented around 61% of the GNI per capita in 2003 which increased to 68.8% in 2006 (see Table 5 for further details), state monopolies are still dominating in some sectors which impact negatively competition, public sector red tape measures and bureaucracy that increase their transaction costs, difficulties in legal system enforcement of contracts and delays of their cases in the Egyptian courts which impact their decisions of investment, inability to repatriate capital which limit the investments from abroad and instability and uncertainty of economic policies. Table 5 shows that there has been a significant improvement regarding the number of steps and procedures, but the monetary cost has relatively increased.

Table 5: - Procedures to establish a business in Egypt

Starting a Business Indicator		2003	2006
Number of procedures		13	10
Duration (days)		43	19
Cost (% of GNI per capita)		61.2	68.8
Min. Capital (% of GNI per capita)		788.6	694.7
Starting a Business detailed indicators			
		2003	2006
Nature of Procedure (2003)	Duration (days)	US\$ Cost	Nature of Procedure (2006) Duration (days) US\$ Cost
Check company name	2	0.23	Obtain a certificate from the Commercial Registry that the name of the company is not similar to any existing company 2 0.17
Obtain a model of the company's contract	1	4.63	Obtain a certificate from an authorized bank indicating the depositing of the full amount of company's capital 1 0.00
Obtain a certificate from an authorized bank	9	0	Visit the Companies Department to dictate the amendments to computerized model of statutes to the Incorporation Unit (IU) at the Legal Department of the Companies Department 1 0.00
Contract revision	1	7.65	Submit documents to the Incorporation Follow-up Unit (IFU) at the Department of Companies and receive the invoice 1 769.95
Authorize documents by the company	1	78.13	Pay invoice issued by IFU at the bank 1 83.34

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Notarize company's contract	1	238.07	Notarize company's contract at the Public Notary Office affiliated to the Department of Companies	1	1.74
Incorporation	3	52.16	Obtain the "Notification of Incorporation" and Chamber of Commerce permit	1	0.00
Obtain a permit to practice activities	1	29.40	Open a tax file - get a tax card (Tax Authority)	7	4.34
Register with the Commercial Registry	3	20.07	Register for sales tax at the Sales Tax Department	1	0.00
Publish the Articles of Incorporation in the Official Journal	5	463.71	Register employees with the National Authority of Social Insurance	3	0.00
Open a tax file	7	5.79			
Register for sales tax	7	0			
Register employees with the National Authority of Social Insurance	3	0			
Totals: 13 procedures	43	\$899.84	Total: 10 Procedures	19	\$858.29

Source: Doing Business database 2004, 2007

Section Six: Policies that Affect Performance of the Private Sector and Status of Competition

1) Trade Policy

In respect of its comparative position of Egypt with its comparators, tariff rates are high and variable in Egypt (see Table 6). A series of tariff reduction took place over the period 1980-1998 as elaborated in Table 7. The case has been clearly stated in the Trade Policy Review of Egypt in 1999 which stated “As a result of the Uruguay Round, Egypt bound over 98% of its tariffs, higher than the developing country average of 73%. While the majority of Egypt's bindings remain well above applied rates, the current applied rate on around 12% of all tariff lines exceeds bindings, sometimes by as much as 55 percentage points. In addition, around 2% of tariff lines are above their initial Uruguay Round bound levels.” So as Egypt has experienced a progressive tariff reduction, the simple average tariff (excluding alcoholic beverages) fell from 31% to 21% in the seven years to 1998 and further to 9% after the latest tariff reduction undertaken in 2004 as announced by the GOE. The WTO acknowledged the positive developments but as stated in its 2005 Trade Policy Review views the process is still incomplete “As a result, the average applied MFN tariff has fallen from 26.8% in 1998 to 20%. Nevertheless, Egypt's tariff system remains complex, with numerous exemptions, and concessions. Peaks, of up to 3,000%, apply to alcoholic beverages and spirits. For 19 tariff lines, the applied tariff exceeds, sometimes substantially, the corresponding bound rate”. Tariff escalation has declined, although it remains high in several sectors, including textiles and clothing, wood and wooden furniture and basic metals. Tariff dispersion has increased but mainly because selected items, such as alcoholic beverages, automobiles, and textiles, remain exempt from the present ceiling tariff rate of 40% (El-Mikawy and Ghoneim, 2003). It is worth noting that the tariff reductions undertaken in 2004 have reduced nominal tariffs significantly (9.10% weighted average tariff rate) but left the effective rate of protection relatively high however less than the one that prevailed before. Moreover, with the devaluation of the Egyptian pound, the decrease in tariff rates was not felt by producers and consumers.

Table 6: Southern Mediterranean Arab Countries: Import Taxation 1999-2000

	Trade Restrictiveness Rating ¹	Average MFN Tariff ²	Effective Imports Tariff ³	Custom Duties (percent of GDP)
Maghreb				
Algeria	7	23.7	13.5	2.0
Morocco	8	34.0	15.0	4.7
Tunisia	8	35.9	10.1	2.8
Mashreq				
Egypt ³	8	30.2	15.1	2.8
Jordan	6	16.0	5.3	4.7
Lebanon	7	21.0	21.4	7.5
Syria	10	35.0	7.2	2.0
West Bank and Gaza ⁴	4	8.8	9.1	7.1

Source: Nashashibi (2002)

¹ IMF restrictiveness rating, with 10 being the most restrictive

² Includes other duties and import surcharges. And observations are for the most recent year available

³ Custom duties on imports divided by the value of imports

⁴ Since WBG is in a custom union with Israel, the index for Israel applies.

Table 7: Developments in Tariff Rates in Egypt

Year	Maximum Tariff Rate	Comments	Simple Average Tariff	Coefficient of Variation of Tariff Rates	(percent)	
					Share of Lines with International Peaks	Share of Lines with Specific Tariffs
1986	160					
1991	100					
1993	80	Short list of exceptions				
1994	70	Short list of exceptions				
1995	Not available	Not available	38.6	165	72.8	1.2
1996-1997	55, then 50	Short list of exceptions				
1998	40	Short list of exceptions	26.8	127	52	9.5
2005	40	Short list of exceptions	20	148	26	

Source: WTO (1999), WTO (2005)

In terms of non tariff barriers (NTBs), serious reforms in this regard have been undertaken. Removal of NTBs on imports included: abolishing the import licensing system, decreasing the number of tariff exemptions allowed, and removing import bans. Letters of credit suspensions, prior approvals by specified authorities, servicing facilities requirements, public sector monopolies, and prior import deposits were removed or considerably liberalized. On the whole, these reforms were successful in turning quantitative restrictions to price measures, hence allowing the price mechanism a larger room to play its role.

The NTBs affecting exports, including the approval of the government for certain commodities, and other forms of red-tape measures as the monopoly of the public sector in the domestic procurement of certain foreign products for exporting, etc. were also removed.

The only remaining non-tariff measure - to distinguish it from NTBs - is quality control which affects imports and exports. A list of products covering 1,550 tariff lines (25 percent of all tariff lines) was made subject to mandatory quality control requirements. In 2002, the list announced by the Ministry of Foreign Trade included 1351 tariff lines. A number of ministries and agencies are involved in setting these standards and the main bulk of such standards are related to food and agricultural products with the ultimate aim of ensuring health and safety measures. However, the system suffers from non-

transparency and redundancy which impose on traders large economic costs. The problems of enforcement of standards which act as NTBs include the following: confusing quality with safety, multiplicity of centers of authority, and lack of transparency. All such issues result in high compliance costs making selling on the domestic market more profitable for domestic producers than exporting (Kheir-El-Din, 2000).

A Presidential Decree was issued in 1999 (Decree 106/1999) to alleviate the cumbersome custom and quality control procedures on traders. The decree aimed at consolidating all the activities of the concerned quality control agencies and institutions in one stage undertaken by the General Organization on Exports and Imports Control (GOEIC). The decree announced, as well, the adoption of a “White List”¹⁰ of exporters and importers that have developed a good reputation in adhering to quality and standard rules and that are exempted from the cumbersome procedures of GOEIC and other import and export inspection agencies. These exporters and importers are only subject to random checking (an exception is food imports). However, the decree is not likely to bring substantial positive effect: *First*, the decree opted for a ‘positive list approach’, where only exporters and importers that have developed good reputation are allowed to benefit from this special treatment. Had the approach been a “negative list approach” where all exporters and importers would benefit from random checking till they prove not worthy this treatment, the decree would have had substantial positive effects. *Second*, by exempting certain exporters and importers from cumbersome procedures of customs clearance and quality control, the government is discriminating against other traders. Those privileged traders are probably dominant figures in the export/import business. Those big traders have been used to circumvent the awkward procedures and thus such regulations do not affect the trade activity *per se*, though it might still reduce their profits if they were not on the “White List”. Other non-dominant traders and/or potential ones have to face these clumsy procedures, which in turn reduce their incentives to trade and hence lead to a diversion to selling in the domestic market instead (Ghoneim, 2000). Hence as the policies aim towards a better business environment and enhancement of the role of the private sector, certain decisions and policies (e.g. the White List) affect negatively the status of competition by discriminating among the players in the market.

Egyptian ports suffer from delays in customs clearance, inefficiency in handling transit issues, etc. The average sea clearance time in Egyptian ports is estimated at 10 days compared to 30 minutes in Belgium, 1 day in Greece and 2 days in the United Arab Emirates (Zarrouk, 2000, Wilson et. al, 2002). Other studies have reported longer time periods to clear certain types of goods (US Embassy, 2002a). This has significantly increased trade related transaction costs in Egypt which when combined with high costs of port services (handling of a container and other related services in Egypt cost at least 30 percent more than in other ports in Southern Mediterranean countries explain the magnitude of trade related problems that Egypt suffers on its borders (World Bank, 1995). Thus, while freight costs from Egypt to Europe, are lower than for other countries, the transportation costs of loading and stevedoring are higher, making the total transportation cost in Egypt the highest compared to other countries in the Mediterranean

¹⁰ This list is issued by the Minister of Finance and updated regularly with additional new names being introduced and others removed.

region. Consequently, Egypt's proximity to Europe does not count for much, given these inefficiencies especially that transport costs account for 10 percent of the cost of imported inputs, and hence reduce the ability of Egyptian export industries to compete internationally (Benham, 1997). The Prime Minister announced in June 2003 that privatization of management in four ports will take place over the coming three years to overcome cumbersome procedures and reduce transaction costs. This initiative has been undertaken after the good performance of the privatized Ain El- Sokhna Port (El Ahram Newspaper, 26/6/2003). Nevertheless there other NTBs continues to evolve over time. For example, the GOE has implemented some measures which raised concern among investors. In the last few years several ministerial decrees were issued that aim at restricting imports where for example that decree that requires that all consumer goods be imported directly from the country of origin and another two decrees that stipulated that automobiles must be imported in the year of their manufacture. Thus it can be safely argued that the general trend in Egyptian trade policy has been to move away from quantitative restrictions, but Egypt has increasingly moved de-restricted imports onto a list of articles requiring quality control inspection. Since the previous Review, this list has been expanded from 69 items to 182 at present. The items include mainly foodstuffs, electronic products and consumer goods. Egyptian standards show a low incidence of conformity with international standards; on average, less than 20% of standards issued annually since 1992 conform to international standards. Since 2002, the GOE started in collaboration with the Industry Modernization Program (a project financed by EU) to harmonize its standards with international ones. More than 3000 standards in the areas of engineering and food sectors were expected to be fully harmonized by end of 2005.

In a nutshell, it can be argued that the trade policy adopted in Egypt has aimed at shielding the domestic industries from competition of imports. The positive developments that have taken place have replaced the quantitative restrictions with price measures which have been reduced lately. Moreover, several ministerial decrees have been issued to restrict imports and hence shield domestic industries from competition from abroad. As regards procedures and policies undertaken to enhance the private sector, the policies were geared to that aim, but high transaction costs arising from red tape measures and bureaucratic procedures prevented reaching this zeal. Import transaction costs in Egypt are high due to inefficient bureaucracy. These include cumbersome drawback and rebate schemes, expensive port and air cargo services, cumbersome import clearances, and a restrictive quality-control system. Such inefficient bureaucracy in the view of many traders inhibited imports and, by discouraging foreign investment and the import of intermediate goods, ultimately had a serious negative effect on non-oil exports.

In terms of using antidumping as a NTB, Egypt is not of the countries that have heavily depended on this tool to prevent competition. Egypt has enacted its Law concerning antidumping in 1998 and established a special body for undertaking investigations in the same year. As Tables 8 and 9 show the number of cases initiated by the Egyptian producers so as well the measures adopted by the antidumping authority have been relatively low when compared to other developing countries as India or Brazil. This implies that antidumping has not been used relatively in general as a protectionist measure.

Table 8: Antidumping Initiations by Reporting Member in the period between 1998 and 2004

Reporting Member	1998	1999	2000	2001	2002	2003	Jan- June 2004	Total
Brazil	18	16	11	17	8	4	6	80
India	27	65	41	79	81	46	4	343
Egypt	14	5	1	7	3	1	0	31

Source: World Trade Organization Website (<http://www.wto.org>)

Table 9: Antidumping Measures By Reporting Member in the period between 1998 and 2004

Reporting Member	1998	1999	2000	2001	2002	2003	Jan- June 2004	Total
Brazil	14	5	9	13	4	2	2	45
India	22	22	57	38	64	53	6	202
Egypt	5	13	0	0	7	4	1	25

Source: World Trade Organization Website (<http://www.wto.org>)

In terms of joining Regional Trade Agreements (RTAs), Egypt has been very active in the last decade in joining RTAs with both developed and developing countries as shown in Table 10. However, there is a lack of vision of how to benefit from such RTAs and there is a great concern of their consistency (Kheir El-Din and Ghoneim, 2006).

The strategy behind being engaged in such a large number of regional trade agreements is far from being clear, as the core hindrances to market access of Egyptian exports are mainly supply constraints and hence opening up to the outside world without addressing a priori these bottlenecks is likely to increase the trade deficit in the short and medium terms without achieving tangible benefits from improved market access. This has been the case with the COMESA where Egypt, since its adherence, has suffered from continued increases in trade deficit. In 1997, Egypt's trade deficit with the COMESA was \$ 102 million, it increased to \$ 155 million in 2000 (www.comesa.int). In 2001, 2002, and 2003 the trade deficit continued where it reached \$ 235 million in 2002 and declined

to \$ 57 million in 2003 (calculated from WITS database). However, since that date Egypt has recorded a surplus in its trade balance with COMESA.

Table 10: Membership of Egypt in Regional Trade Agreements (RTAs)

Year	Name of Agreement
1998 (entry into force), 2005 (fully implemented)	GAFTA (free trade area to be reached by 2007 accelerated to 2005)
1998 (entry into force)	COMESA (free trade area already taking place, aim to reach a customs union by 2004)
2002 (signature and ratification), 2004 (entry into force)	EU-Med Partnership Agreement (free trade area to be reached after 12 years from entry into force of the agreement, with one exception)
2001 (Initiated), 2004 (signed), 2006 (entry into force)	Aghadir Declaration (free trade area with similar rules of origin to be reached soon)
1999 (signing and entry into force)	TIFA (agreement to enhance trade and investment)
Potential under negotiations or discussion*	Free trade area with EFTA, Turkey (signed 2006), South Africa, Nigeria, and Australia, India, Tanzania, and Sri Lanka, EMUWA, Japan.
In the 1990s	A number of bilateral preferential trade agreements with Arab countries including Lebanon, Syria, Morocco, Tunisia, Libya, Jordan, and Iraq

Source: Ministry of Foreign Trade (2006), *Aggregated Foreign Trade Report*

* This is based on what has been mentioned in the newspaper as stated by officials.

As a consequence, looking over the period between the mid-1980s and 1996, it is clear that Egypt had not maximized the potential benefits from the liberalization of the trade regime and, consequently, in some respects was becoming less integrated in the world economy. In a nutshell, we can emphasize the trade policy characteristics in the following points:

Trade is hampered in Egypt because state-owned transport facilitates and customs, bureaucracy and red-tape stifles cross-border transport ---the average freight costs in Egypt is 12% of transaction value, or three times as large as it is in other countries with similar geography (Turkey) and twice as large as countries located at great distances from major markets (Chile).

Trade is also depressed because the private sector faces widespread regulatory and administrative bottlenecks including costs of conformity assessment, transshipment regulation, and informal payments to custom officials.

Beyond the incidence of these transaction costs, the trade regime of Egypt is highly of a protectionist nature. Tariffs are high and non-tariff barriers are widespread, and despite reforms to reduce these barriers, Egypt has fallen behind its competitors in the region. The average rate of effective protection remains high despite the reductions in tariffs that took place in 2004.

The business environment also constitutes a major bottleneck, with investors citing among other factors business licensing , state monopolies , prohibited imports, employment of nationals, public sector corruption, difficulties in legal system enforcement of contracts, inability to repatriate capital, political instability, and unpredictability and reliability of policies as some of the common factors deterring investment in intra-regional trade. (For similar arguments but describing the trade regime in the Arab countries see Dasgupta and Iqbal, 2003)

To summarize, in terms of the impact of trade policy on the performance of the private sector, status of competition, and inter-firm rivalry, it is very difficult to arrive at a clear cut answer as there were several serious attempts to liberalize and at the same time there were several retreats (see El-Mikawy and Ghoneim, 2003). As the available anecdotes show trade policy is used by the government for achieving aims like income distribution. The case of removing the ban on ready made garments reveals clearly this issue. For example, under the Multi-Fiber-Agreement Egypt had a waiver to ban ready made garments till end of year 2001. In January 2002, Egypt should have applied its tariffs in line with its schedule of commitments in the WTO. However, Egypt applied instead specific tariffs which were considered to be high in comparison with its ad valorem equivalent. Based on the pressure from the US and the EU, Egypt had to comply by changing its legislation in August 2003 where it said it will apply the tariff rate whether specific or ad valorem, whichever is lower on imports originating from WTO members.

The use of other non conventional trade policies which can affect competition and inter-firm rivalry was highly evident in some regards whereas other traditional tools were not utilized. For example the number of cases of antidumping that Egypt has raised remain low by international and developing countries standards. On the other hand issuing decrees that limit imports of automobiles to their year of manufacturing or specifying that commodities have to be imported from the countries of origin limit imports and hence limit competition. The performance of the private sector cannot be easily assessed from such type of trade policy. For example, as table 11 shows the effective rate of protection has remained stable or rather increased over time which shielded the private as well as public sector reform competition from abroad but its impact on the performance cannot be easily identified as the empirical literature has shown mixed results regarding this issue (e.g., Harrison and Hanson, 1999 showed in the case of Morocco that sectors with higher effective rate of protection have expanded their exports significantly after Morocco has initiated its trade reform in the 1980s). However, the boarder measures affected negatively the performance of the private sector as it raised its transaction costs to a high extent.

2) Financial and Monetary Policies

The cases where the financial and monetary policies have a direct impact on the performance of the private sector and the status of competition are limited if we are discussing the direct impact. Nevertheless, we focus here on two major policies that have affected the performance of the private sector and the state of competition. The first policy we focus upon is the exchange rate policy. In 1991, Egypt has undertaken a major reform, devalued the currency by 25% in nominal terms, unified the multiple exchange rate regimes and pegged the Egyptian pound to the US dollar. The consequences of such a decision were remarkable. Stability in the exchange rate occurred, and private sector made use of the stable environment (World Bank, 1999), nevertheless the government continued with such policy which led to overvaluation of the Egyptian pound and serious decisions which led to more than 40% devaluation happened between the 2000 and 2003 (Kheir-El-Din and Ghoneim, 2006). The negative impact of overvaluation on the performance of the private sector meant that there was more preference for capital extensive techniques since capital became more cheap, however it should have intensified the competition coming from imports if there were no high tariff rates, which was not the case as Egypt continued to have high tariff rates in the 1990s (as shown in part related to trade policy).

The other channel through which financial and monetary policy might affect the performance of the private sector and the status of competition is the tax treatment. The Egyptian system of *business taxation* is relatively a complicated system. It involves direct taxes such as income and property taxes, as well as indirect taxes including customs duties, sales taxes, stamp duties and surcharges. Special exemptions are provided under the tax schemes in the existing investment laws and regulations to enhance investment. The tax administration system is considered difficult and cumbersome¹¹ (see Kheir El Din, et., al, 2003).

The main features of business (corporate and non-corporate) income taxation in Egypt can be summarized as follows:

Profit Tax Rates:

They are relatively high and are non uniform (see Table12.). Tax rates vary according to the nature of the activity. The rate ranges from an upper bound of 40% for corporate firms (Joint stock companies, limited liabilities, and partnership limited by shares) engaged in services to 32% for corporate firms engaged in manufacturing and exporting activities. The profits of non corporate firms (sole proprietorships and limited and general partnerships) are subject to personal and income taxes ranging between 20 and 40%, which depends on income bracket where shares of partners in taxable profits (known as profits from commercial and industrial activities) are included in their unified income tax base and are subjected to progressive tax rates (Kheir El Din, et., al, 2003). In 2006 a new law was passed that decreased the corporate tax to 20% on all activities. Moreover, for non-corporate undertakings in the manufacturing and exporting activities, the first LE. 8,000 of profit is taxed at the statutory rate, while 80 percent (industrial) and 70 percent (exporting) of remaining profits are subject to the statutory rate. . Both corporate and

¹¹ As mentioned in Kheir El Din, et., al (2003) there are about 250,000 pending tax cases in Egyptian courts which illustrates the cumbersome nature of the tax administration in Egypt.

non-corporate projects are subject to an additional 2 percent development duty on profits exceeding LE.18,000. In 2005, a new comprehensive tax law was enacted aiming among its other expansionary effects at reducing the corporate tax to 20% among industrial and services activities. The law was effective starting June 2005.

The government derives most of its revenue from indirect taxes (representing 55% of total tax revenue) whereas corporate and non-corporate taxes provided only about 38% of the total tax revenue in 2003/2004 (Ministry of Finance, Annual Government Budget, 2003).

Table 11. Effective Protection in the Egyptian Manufacturing Sector

	(percent)				
	1991/92 IO tables			1998/99 IO tables	
	1994	1998	2002	1998	2002
Food processing	8.1	7.4	7.4	5.8	1.5
Cotton ginning and pressing	-8.9	-6.2	-5.9	-11.1	-11.5
Spinning and weaving	50.3	44.9	48.2	36.2	38.4
Garments	82.8	44.3	826.0		
Garments and footwear				43.9	674.1
Leather products excl. shoes	60.9	38.7	50.8	33.2	43.6
Shoes	94.4	50.4	51.8		
Wood, wood products, excl. furniture	6.1	5.8	9.4		
Furniture	99.0	55.1	53.8		
Wood products including furniture				9.1	12.0
Paper and printing	17.1	16.2	16.0	15.2	15.0
Chemicals and products, excl. petroleum	9.6	9.5	9.7	9.2	6.9
Rubber, plastic and products	49.6	37.0	38.1	30.1	31.0
Porcelain, china, pottery	62.0	39.0	38.9		
Glass and products	40.0	28.9	29.2		
Mineral products, n.e.i.	20.5	17.6	19.0	20.9	19.6
Iron, steel, other base metals	22.1	16.6	16.8	15.4	12.0
Machinery and appliances	19.2	14.2	14.3	14.4	11.1
Transportation equipment	54.8	46.7	46.6	45.4	44.6
Unweighted manufacturing average*	37.8	26.4	27.8	18.6	18.6
Dispersion*	31.4	18.5	19.2	15.5	17.4

Source: Refaat, Amal (2003).

* Average and dispersion are for all industries included in the table excluding clothing.

Table 12: Corporate Tax Rate in Egypt and other Countries before the tax reform in 2005

Country	Corporate tax rate
Egypt	32&40 (down to 20% in 2005)
Turkey	33
Morocco	35
Tunisia	35
Israel	36
Argentina	35
Brazil	37
Chile	15
Mexico	35
Peru	30
Indonesia	30
Singapore	26
Hong Kong	16
Korea	31

Source: Kheir El-Din et.al, 2003.

Property Tax:

Real estate tax is calculated for nonresidential buildings and land. The basic tax rate of 10 percent is applied on the net rental value, which is 80 percent of gross rental value¹² (20 percent of the gross rental value is deducted for maintenance and expenses). Besides the basic tax rate, there is a complementary tax called guards tax set at the rate a 20 percent of the original tax.

Sales Tax:

It is levied on the sales of goods and services. Both domestic and imported goods are taxed (the sales tax is applied on the value of imports including customs duties). The sales tax rate varies by commodity and type of service.

Tax Incentives:

According to the Investment Incentives and Guarantees Law (Law No.8 for 1997) and its amendments introduced in 2004, companies falling under this law, regardless of their legal form, are exempted from income taxes for a period of 5 up to 20 years starting from the first year of activity. These exemptions are provided based on geographical location. In 2005, the Minister of Finance announced that exemptions will be eliminated.

¹² Gross rental value for buildings and land are 8 and 5 percent of the value of buildings and land, respectively (Interviews with tax experts).

The impact of the tax system on the size of the private sector has been negative. The private sector has been complaining on the bad tax administration and have always put it on the top of the agenda of the major obstacles affecting its performance (World Bank 1994; Galal, 1996; Fawzy, 1998; Ghoneim, 2002b). Hence it can be safely argued that the tax administration is a major obstacle affecting the performance of the private sector and having a conducive business environment. The tax level, is as well a major obstacle where it has been shown in Table 25 that it is high by international standards and the business community have considered it as one of the major obstacles as well (see Table 18.).

Regarding the impact of the tax system on the status of competition and inter-firm rivalry, it is worth mentioning that bad tax administration affect the status of competition in negative term. There are two channels through which this negative impact can hinder having a healthy competitive status and impede inter-firm rivalry. The first channel is the bad administration reflected in the huge size of the pending cases in the court. The bad administration and pending cases are translated in businesses having trouble and can stop their activities until such cases are resolved. Since the tax administration is bad for large as well as small firms, it simply means that by definition large firms are able to service with tax administration problems much longer than can the small firms. This means that many firms either get out of the market, although they could have been there if they had no tax problems, which is translated in less competition. Moreover, with cumbersome tax procedures, firms try to circumvent. The degree of ability of circumventing tax laws is determined by both size and experience of the firm. This is translated in unfair competition since there is no level playing field for all firms regarding their tax treatment. The other channel through which the tax system affects negatively competition is the way the sales tax is calculated on imported goods. The sales tax is calculated on the value of the good after including the customs value. This creates unfair competition since the domestic goods are not subject to customs. Hence, this crates unfair competition where the extent of the unfairness increases with the height of tariffs imposed.

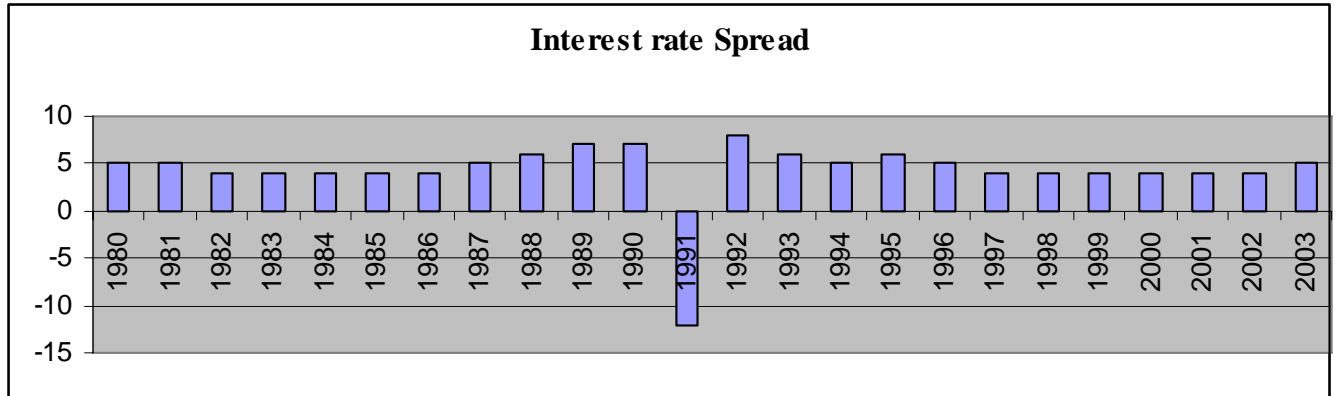
Finally the financial and monetary policies can affect negatively the performance of the private sector if there exists high interest rate spread.

The high interest rate spread meant negative impact on competition since it made borrowing from banks more costly for domestic producers who had no access to external market funds. This affected negatively the performance of the private sector, however to a limited extent as it only constituted one element of several other obstacles (mainly red tape measures) which hindered the development of the private sector. Moreover the interest rate spread has decreased significantly since year 1993 as shown in Figure2.

In general the restrictive fiscal policy represented in high tax rates and bad tax administration affect the competition negatively through their negative impact creating a hard budget for firms which in turn negatively affect their ability to compete as they have to follow strict budget constraints. A comprehensive income tax reform was initiated in 2005 aiming mainly at reducing transaction costs resulting from bad administration and

lowering the tax rate. Such an initiative is likely to have a positive impact on the status of competition and enhance inter-firm rivalry.

Figure 2: Interest rate Spread



Source: World Development Indicators 2005 CD ROM

Section Seven: The Discretionary Power of GOE, Regulatory Bodies, and other Quasi Governmental Bodies in Affecting the Performance of the Private Sector and State of Competition:

In this section we concentrate on the role of local governments (governorates) in affecting the performance of the private sector and status of competition and the role of regulator bodies.

Role of Governorates:

According to the law concerned with the local governments. The Governor, who represents the central government within his governorate, has the authority to:

i) assign or rent lands and other assets owned by the government to public sector companies without any charges or with minimal ones. This authority of the local government gives the public sector an advantage as the private sector does not get the same treatment.

ii) impose local fees and duties; however, according to a Prime Ministerial decree, governorates are not allowed to impose new charges or duties (KPMG 2000 in Kheir El Din, et. al, 2003).

This authority of the local government gives the public sector an advantage as the private sector does not get the same treatment. Moreover, investors suffer from excessive surcharges and rental collected by the governorates. This affects negatively the competition both between the public and private sector as well as between different governorates. Moreover, the tax exemptions and breaks allowed under the investment law(s) for special geographical areas do not allow having a level playing field between different geographical areas which can have a negative impact on competition. The amendments to the Investment Law 8 of 1997 introduced in 2004 which were introduced to streamline the procedures and reduce the number of steps that the investor faces stumbled against the overlapping of jurisdictionary power allowed for both the General Authority of Investment and the governorates. Such obstacles are likely to affect negatively the investment and business environment and hence are not expected to enhance the status of competition.

Role of Regulatory Bodies:

In Egypt there are two regulatory bodies, one in the field of electricity and the other in the field of telecommunications. Below we identify some of the main features of each of them while pinpointing whether they have a role in enhancing competition and increasing the role played by the private sector in the economy.

Electricity

The body responsible for regulating the electricity sector is called The Egyptian Electric Utility and Consumer Protection Regulatory Agency (EEUCPRA). In order to regulate, supervise, and control all matters related to the electric power activities and to introduce competition, a presidential decree 339/2000 allowed to reorganize the Egyptian Electric Utility and Consumer Protection Regulatory Agency as a legal entity affiliated to the Minister of Electricity.

It is important to note that; one of the aims of the Regulator is to ensure that the costs of providing good quality of electricity confirm the realization of a fair return to the Electric Utility sector to secure the continuity and availability of supply to satisfy the demand of the various aspects of usage. But the Regulator in the Egyptian case failed to apply a quasi-optimal pricing (Rate-of Return or Price-Cap Regulation) that should be revised every 3-5 years because of its inability to pressure for changing electricity prices which have been frozen since 1992 (for economic, social, and political reasons) and its relative weakness to lobby for passing a bill asking for such a demand due to lack of supporters. The EEUCPRA does not regulate every sector in electricity as still some activities fall outside its jurisdiction and follow the government. This puts EEUCPRA in an awkward position due to inability to control some parts of a vertically integrated industry that follow the directions of the government. Moreover, the independence of EEUCPRA is questionable, as although it is supposed to be an independent body it is headed by the Minister of Electricity who has the discretionary power to alter the decisions of EEUCPRA following the intentions of the government, regardless the main mandate of EEUCPRA. However, such point of view is challenged in the case of EEUCPRA and the body regulating the telecommunications sector as some view that for a body to gain power it has to follow a certain ministry.

In brief, the role of the EEUCPRA can be summarized into:

- Regulates and supervises all electricity generation, transmission, and distribution.
 - Ensures availability of supply to users at the most equitable prices and considers environmental issues.
 - Considers interests of customers, producers, transmitters, and distributors.
 - Prepares for fair competition in the field of electricity generation, transmission, and distribution.
 - Prevents any monopoly within the electricity market.
- (see Ragab, 2003 and El Garf, 2000)

Telecommunications:

The Regulatory Body for organizing the telecommunications sector is called the Egyptian Telecommunications Regulatory Authority (TRA).

Until 1998, the Arab Republic of Egypt National Telecommunications Organization (ARENTO); subsequently changed to Telecom Egypt (TE) was exclusively responsible for providing all telecommunications services in Egypt. ARENTO acted as both Operator

and Regulator. Law 19 of 1998 transformed Telecom Egypt from a state-owned organization to a joint stock company, and separated the regulatory function from the company and established the Telecommunication Regulatory Authority (TRA). Presidential Decree no. 101 of 1998 drew-up TRA mission, strategies and responsibilities, which included the following:

TRA strategies and responsibilities:

- Provides a transparent regulatory framework for advanced and adequate telecommunication services across Egypt at affordable prices.
- Promotes and encourages fair competition for the benefit of the end-user.
- Encourages investment in the telecommunication sector on a non-monopoly basis.
- Protects the public interest and user interest.
- Ensures optimal utilization of scarce resources such as the frequency spectrum.
- Putting satisfaction of consumers as a main objective
- Monitors quality insurance of the telecommunications services (<http://www.tra.gov.eg/pdfs/TRA-bros.pdf>)

The TRA suffers from the same problem of lack of complete independence as its board of directors is headed by the Minister of Communications and Information and hence its decisions are largely either politically driven or lack objectiveness as Telecom Egypt is still government dominated and hence the TRA has no influential impact on its decisions.

Section Eight: Conclusion and Lessons Learned

Egypt has tried to enhance the role of the private sector by initiating a number of laws and regulations. The issues of enhancing competition and inter-firm rivalry were never spelt out as major issues by the government (with the exception of the newly enacted competition law), however in many cases the laws designed to enhance the role of the private sector aimed at well to enhance the status of competition. In many cases the enforcement of laws and regulations remained weak to a large extent, hence their impact on improving the business climate was humble and their effect on enhancing competition was modest.

Policies designed to enhance competition and inter-firm rivalry were rather very few or absent. All of the reviewed polices pointed out that the policies implemented did not favor better competition status. In many cases the policies adopted were either designed to protect certain industries or affected negatively the performance of the private sector due to inefficiencies in the implementation and enforcement procedures. In this regard, the main culprit is the protectionist trade policy that represented the key policy for enhancing competition. Even when reform of trade policy was introduced, it remained non transparent and suffered from a number of backslides which preserved the anticompetitive nature of many markets. However, with the change of the cabinet in July 2004 several positive signals were pointed out. The cabinet raised the motto of “reform” and since this cabinet has been in place several liberal policies have been adopted in the trade area. Moreover, several regulatory improvements have taken place where

appointment of figures acquainted with the business environment in key positions as General Authority for Investment has taken place. Such reforms are likely to enhance the role of the private sector in the economy, however its impact on competition cannot be determined.

The discretionary power of governorates in undertaking decision or implementing policies affecting the status of private sector and the status of competition is kept to a minimum. However, the discrimination in the treatment of public and private sector in terms of allocating land free of charge and the overlapping of jurisdiction power among the General Authority for Investment and the governorates are major obstacles that affect negatively the competition between private and public sectors.

The role played by regulatory bodies in monitoring competition and private sector behavior remains limited to a large extent due to lack of complete independence and political pressures. It is confident to say that such regulatory bodies were not allowed due to the several reasons, among which is the introduction of their concepts and roles, political pressures, to perform their role effectively.

In a nutshell, it can be safely argued that the major missing laws and policies needed to enhance competition were the absence of a competition law and the restrictive trade policy, a situation which has changed in 2004. Other laws and policies were not designed to enhance competition, though they had the intention of enhancing the role of the private sector in the economy. In other words, they focused on increasing the role of the private sector by providing several incentives, however, the aspects of competition and inter-firm rivalry remained missing in their design. Hence, the success achieved by laws and policies in enhancing competition remained limited to a large extent, first due to the dominance of the public sector which was followed by monopolistic and oligopolistic market structures dominated by private sector which deterred a competitive environment. Moreover, our hypothesis of the protectionist trade policy did not help to enhance the role competition in the economy is proved where we find that it has been used as a tool to support the hard budgets of the public sectors and non efficient private sector. The net result was using trade policy as a tool to achieve social and political objectives including redistribution of income for certain social segments (government officials working in the public sector) and supporting the interest of certain private lobbies (which either enjoyed abnormal profits from such a protected market or wanted to avoid hard budgets). The net result was a humble impact on enhancing competition.

The cabinet that was appointed in 2004 adopted liberal policies especially in the fields of trade and finance. The impact of such policies is likely to be positive on the status of competition and inter-firm rivalry, however not enough time have elapsed to be able to evaluate the impact of such policies, though the available evidence up till now show that such polices were able to increase private sector participation but not to enhance competition and inter-firm rivalry.

PART III: BENCHMARKING THE PRIVATE SECTOR AND THE REGULATION OF THE PRIVATE SECTOR WITH DEVELOPING ECONOMY PEERS: THE CASE OF EGYPT

Introduction:

In this part of the study we review the latest World Bank Doing Business, 2004, 2005, and 2006 indicators for Egypt compared with five countries included in the study. We then move to specific national indicators that provide us with an overview of the status of competition in the Egyptian economy.

This part is divided into three sections following this introduction. Section Nine provides cross country comparison for the World Bank Doing Business indicators. Section Ten provides an overview of the status of competition in the different manufacturing sectors of the Egyptian economy. Section Eleven concludes. Our main focus is investigating the status of competition and inter-firm rivalry.

With regards to indicators used in Section Nine, we are convinced that such indicators are not the best indicators that can be used to assess the Egyptian economy in terms of policies, procedures, and institutions, however, due to the lack of data that allow us to undertake such cross country comparison we had to depend on our second best data sources where all countries can be compared using the same methodology. In Section Ten, in many case data paucity did not allow us to use the first best variables and indicators, and we had to depend on proxy indicators and variables.

Data used are collected from the annual industrial statistics yearbook published by the Central Agency for Public Mobilization and Statistics (CAPMAS) which is the official source of data in Egypt. One of the drawbacks characterizing this data is how CAPMAS handles data on public sector during the privatization program. Once the privatization process started, data on privatized firms are classified as private firms even if the firm is not privatized completely. This may affect the values of some indicators as a result of data augmentation during the nineties.

Section Nine: Cross Country Comparison Using Doing Business Indicators:

Table 1 states the procedures needed to start a new business. As shown in the table, Egypt compared relatively well regarding the number of procedures with Argentina, and Brazil in 2003. It lagged behind India, South Africa, and, Mexico. The same applies for other indicators of duration and minimum capital as percentage of Gross National Income per capita where the position of Egypt is relatively in the middle when compared with the set of comparator countries used. The situation changed dramatically in 2006 where Egypt was among the best performers among the set of countries compared regarding all the aforementioned indicators. The worst indicator for Egypt is the cost of starting a new business when taken as a percentage of the Gross National Income per capita. It reached 61.2% in 2003 and 68.8% in 2006 which is relatively very high if compared to other countries whether developing or developed. The situation did not change significantly between 2003 and 2006. The reforms undertaken by the government starting mid 2004 have improved the status of the business environment in Egypt whether in terms of reducing the number of procedures required to start a business, or in terms of financial expenditures accompanying the process.

Table 1: Starting a Business:

Indicator Business, 2003)	(Doing Egypt	South Africa	India	Brazil	Mexico	Argentina
Number of procedures	13	9	10	15	7	15
Duration (days)	43	38	88	152	51	68
Cost (% of GNI per capita)	61.2	8.7	49.8	11.6	18.8	8.0
Min. Capital (% of GNI per capita)	788.6	N.A.	430.4	N.A.	87.6	N.A.
Indicator Business, 2006)	(Doing Egypt	South Africa	India	Brazil	Mexico	Argentina
Number of procedures	10	9	11	17	8	15
Duration (days)	19	35	35	152	27	32
Cost (% of GNI per capita)	68.8	6.9	73.7	9.9	14.2	12.1
Min. Capital (% of GNI per capita)	694.7	0.0	0.0	0.0	12.5	5.6

Source: World Bank (2004) and (2007)

Table 2 deals with hiring and firing of labor procedures.

On average Egypt compares relatively in the middle to other countries. It is in a better position compared to Brazil, Mexico, and Argentina and worse than South Africa, and India. The worst indicator for Egypt as shown in the Table is the one concerning conditions of employment index. In 2004, Doing Business changed the indicators used, so we were not able to trace the development in Egypt over time, however the indicators used in 2006 show that Egypt compares relatively bad when compared to other countries implying a higher level of regulation regarding labor issues.

Table 2: Labor Hiring and Firing Regulations:

Indicator (Doing Business, 2003)	Egypt	South Africa	India	Brazil	Mexico	Argentina
Flexibility of Hiring Index	33	42	33	78	81	71
Conditions of Employment Index	83	36	75	89	81	81
Flexibility of Firing Index	61	30	45	68	70	46
Employment Laws Index	59	36	51	78	77	66
Indicator (Doing Business, 2006)	Egypt	South Africa	India	Brazil	Mexico	Argentina
Difficulty of Hiring Index	0	44	33	67	33	44
Rigidity of Hours Index	60	40	20	60	40	60
Difficulty of Firing Index	100	40	70	0	40	20
Rigidity of Employment Index	53	41	41	42	38	41
Hiring cost (% of salary)	26.0	2.4	16.8	37.3	23.9	23.0
Firing costs (weeks of wages)	186.3	24.0	55.9	36.8	74.3	138.7

Source: World Bank (2004) and (2007)

Table 3 identifies the number of procedures, costs and duration of enforcing contracts. As shown from the Table in 2003 Egypt compared well to all other countries where there existed only one country in a better position, namely Brazil. The worst indicator in the procedural complexity index for Egypt was the one related to cost as percentage of GNI. The situation in 2006 changed dramatically, not only for Egypt, but for other countries as well where in some countries the indicators worsened significantly while in others it improved which might be a result in the change of methodology adopted by the World Bank. As for Egypt, it compared relatively bad with other countries in terms of number of procedures. This is not the case with the other two indicators where it ranked in the middle whether regarding the indicator related to days or the cost as percentage of GNI.

Table 3:

Enforcing Contracts (2003, 2006) – covers formality of procedures and time to resolve a dispute

Indicator	Egypt	South	India	Brazil	Mexico	Argentina
-----------	-------	-------	-------	--------	--------	-----------

Africa						
Number of procedures	19	26	22	16	47	32
Duration (days)	202	207	365	380	325	300
Cost (% GNI per capita)	30.7	16.7	95.0	2.4	10.0	8.5
Procedural Complexity Index	50	56	50	48	62	80
Enforcing Contracts (2006) – covers formality of procedures and time to resolve a dispute Indicator	Egypt	South Africa	India	Brazil	Mexico	Argentina
Number of procedures	55	26	56	42	37	33
Duration (days)	1,010	600	1,420	616	415	520
Cost (% of debt)	18.4	11.5	35.7	15.5	20.0	15.0

Source: World Bank (2004) and (2007)

Table 4 identifies the procedures, costs, and duration of closing a business. As shown from the table Egypt compares well when compared to India, and Brazil. However, it compares relatively bad when compared to the other three countries. The indicators used by the World Bank differed in 2003 when compared to 2006, however for the indicators that have been used in the two years there has been no significant improvement over time.

Table 4: Closing a Business:

Indicator (2003)	Egypt	South Africa	India	Brazil	Mexico	Argentina
Actual time (in years)	4.3	2.0	11.3	10.0	2.0	2.8
Actual cost (% of estate)	18	18	8	8.0	18	18
Goals of Insolvency Index	39	53	21	24	61	43
Court Powers Index	67	67	33	67	67	67
Indicator (2006)	Egypt	South Africa	India	Brazil	Mexico	Argentina
Actual time (in years)	4.2	2.0	10.0	4.0	1.8	2.8
Actual cost (% of estate)	22.0	18.0	9.0	12.0	18.0	12.0
Recovery Rate	16.6	34.4	13.0	12.1	63.2	36.2

Source: World Bank (2004) and (2007)

An overview of the 4 tables shows us that Egypt is in a middle position when compared to other countries in the table. In some cases Egypt is in the same or a better rank than other countries and sometimes lags behind them. However, it should be noted that such indicators are based on very restrictive assumptions to allow comparability across countries (for such assumptions see World Bank, 2004 and 2007). A general conclusion from such comparisons is that the lack of competition and inter-firm rivalry in Egypt should not be attributed to institutional aspects as those mentioned in the tables. As

revealed from the tables, Egypt compares relatively well with other countries which probably enjoy a higher level of competition and inter-firm rivalry. Hence, claiming the faults on such institutional aspects will be unfair as bureaucratic and red tape measures apply in other countries as well as in Egypt to the same extent.

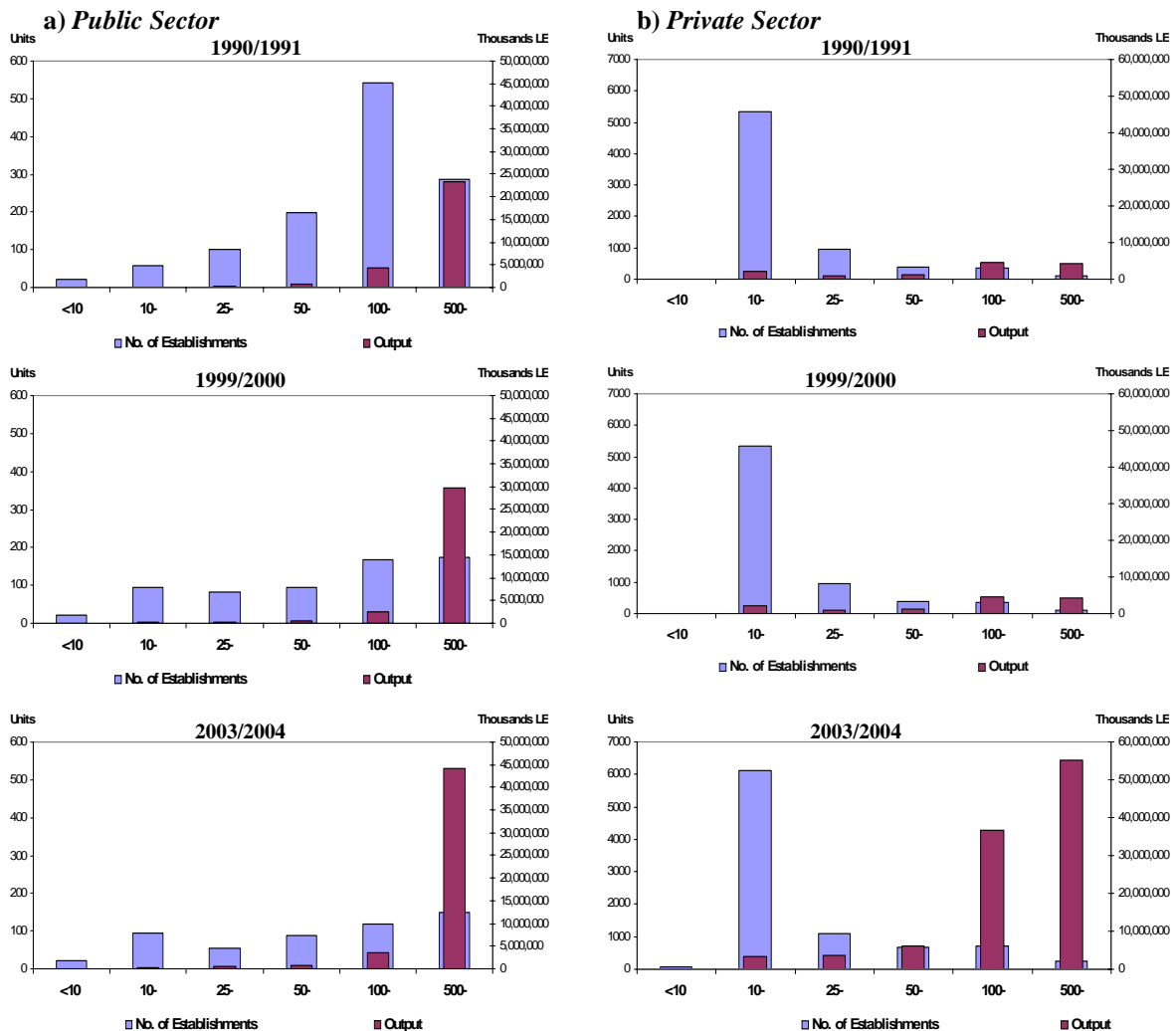
Section Ten: National Sectoral Indicators:

In this section we follow the indicators provided in the proposal of the project. Most of the indicators were not published and the author had to calculate them. In many cases the exact indicators identified in the proposal could not be measured due to lack of data. Hence proxy indicators and/or variables were used.

Indicator One: Concentration Ratio:

There were no data available that allow us to calculate the three firm-level concentration ratio or the five firm-level concentration ratio. Figure 7 shows that the pattern of concentration in large firms was high in the public sector in 1990/1991 and by time it was heavily reduced especially in the case of 500+ workers' firms. The case of the private sector did not change much over the 1990s and remained relatively stable with a very high concentration among the set of the large firms (500+ workers).

Figure 1: Number of Establishments and Output



Source: CAPMAS Industrial Production Bulletin, various issues

Source: CAPMAS Industrial Production Bulletin, various issues

To overcome the deficiency of data, we assumed that firms with the largest number of labor (more than 500) are the largest firms. We then divided the production of the largest firms by the total production of the sector, while differentiating between public and private. In general the concentration ratio increased in total manufacturing especially for the public sector, whereas it increased for the private sector between 1990 and 1995 and decreased slightly in 1999. As for specific sectors we find that the food and beverage sector (ISIC 31) and the textiles, garments and leather sector (ISIC 32) followed the same trend, where the number of public firms decreased and the number of private firms increased (an expected outcome of the Economic Reform and Structural Adjustment Program (ERSAP) and the privatization process). However, the concentration ratio increased in the case of ISIC 31 and ISIC 32 for the public sector along the four years 1990, 1995, 1999, and 2004 (it slightly declined in 1999 for ISIC 32). In the case of the private sector, the trend showed an increase in concentration in the period 1990 to 1995 and declined in 1999 for both ISIC 31 and ISIC 32. Other trends were identified in other sectors as shown in Table 5, nevertheless, the major observation is that concentration ratio increased in the private sector between 1990 and 1995 and decreased afterwards, showing a positive sign of competition. In general the concentration ratio remained low in the private sector, with the exception of ISIC 37 (basic metal products), however the concentration started to decrease as well in 1999. ISIC 33 (wood and furniture) experienced a significant increase in the concentration ratio. This is versus the trend in the public sector where concentration ratio increased between 1990 and 1995, between 1995 and 1999, and relatively stabilized between 1999 and 2004 in almost all the sectors.

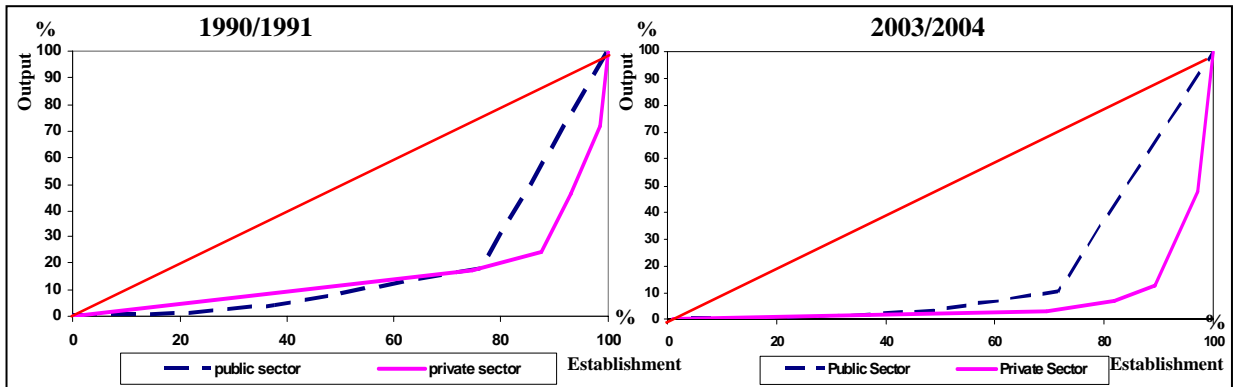
Table 5: Concentration Ratio of Firms Employing More Than 500 Workers

Year	ISIC Code	Definition	Number of Firms		% Share of Total Output	
			Public	Private	Public	Private
1990	31	Food products, Beverages & Tobacco	71	21	48.4	19.5
	32	Textile, garments & leather	58	24	96.1	39.3
	33	Wood & furniture	1	1	18.8	6.3
	34	Paper & products, printing & publication	6	10	79.9	34.4
	35	Chemical & products, petroleum, coal, rubber & plastics	47	16	93.8	25.0
	36	Mining products, non-metal products, except petroleum & coal	19	10	90.1	34.1
	37	Basic metal products	14	2	98.0	81.8
	38	Metal products, machinery & equipment	71	11	87.9	29.3
	39	Other manufacture	0	1	0.0	0.3
		Total	Total Manufacturing	287	96	81.0	33.4
1995	31	Food products, Beverages & Tobacco	54	38	52.0	37.4
	32	Textile, garments & leather	53	48	96.6	50.6
	33	Wood & furniture	1	1	24.2	18.8
	34	Paper & products, printing & publication	7	14	93.6	23.2

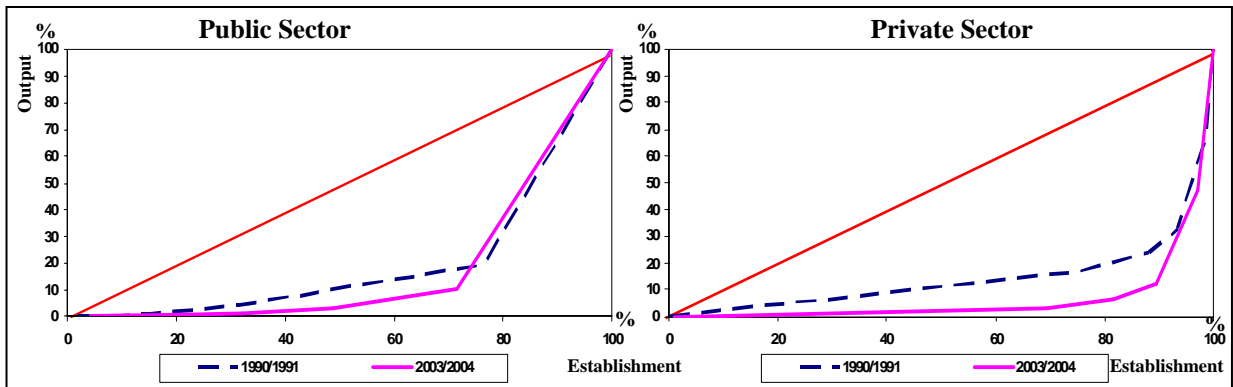
Year	ISIC Code	Definition	Number of Firms		% Share of Total Output	
			Public	Private	Public	Private
	35	Chemical & products, petroleum, coal, rubber & plastics	54	11	94.2	21.7
	36	Mining products, non-metal products, except petroleum & coal	19	17	98.0	62.1
	37	Basic metal products	19	6	99.8	80.2
	38	Metal products, machinery & equipment	55	35	91.1	48.8
	39	Other manufacture	0	1	0.0	11.4
	Total	Total Manufacturing	262	171	85.2	43.3
1999	31	Food products, Beverages & Tobacco	36	46	68.0	28.5
	32	Textile, garments & leather	43	57	94.5	48.7
	33	Wood & furniture	3	3	71.7	38.3
	34	Paper & products, printing & publication	4	17	82.3	36.4
	35	Chemical & products, petroleum, coal, rubber & plastics	39	22	96.3	40.4
	36	Mining products, non-metal products, except petroleum & coal	7	28	97.3	57.8
	37	Basic metal products	14	10	97.2	50.8
	38	Metal products, machinery & equipment	28	40	85.3	57.0
	39	Other manufacture	0	1	0.0	14.2
	Total	Total Manufacturing	174	224	89.1	42.9
2004	31	Food products, Beverages & Tobacco	29	51	70.2	40.6
	32	Textile, garments & leather	37	69	89.8	59.2
	33	Wood & furniture	2	3	71.0	23.2
	34	Paper & products, printing & publication	3	13	80.3	33.6
	35	Chemical & products, petroleum, coal, rubber & plastics	36	33	94.8	44.5
	36	Mining products, non-metal products, except petroleum & coal	8	20	96.5	60.8
	37	Basic metal products	11	7	99.7	81.7
	38	Metal products, machinery & equipment	24	51	85.0	55.6
	39	Other manufacture	0	0	0.0	0.0
	Total	Total Manufacturing	150	247	89.7	52.6

Source: Author's calculations based on CAPMAS *Industrial Production Statistics Bulletin*, various issues.

Figure 2: Distribution of Number of Establishments versus Production in Manufacturing Sector (1990/91 & 2003/2004)



Source: Author's calculations based on CAPMAS *Industrial Production Statistics Bulletin*, various issues.



Source: Author's calculations based on CAPMAS *Industrial Production Statistics Bulletin*, various issues.

The previous graph shows the area between the straight line, which represents equally distributed production among different firms in the economy, and curves, which represents the actual distribution of the production in the Egyptian economy. The two curves corresponding to private and public sectors indicate that the public sector is in general less concentrated than the private sector where the curve of the private sector is below the one of the public sector. In addition, the private sector has become more

concentrated during 90's as a result of privatizing the large public firms (see Appendix D for details on different activities). Hence, it is worth noting that privatization does not necessarily imply more competition and enhanced inter-firm rivalry. We cannot deduct the final result of privatization on enhancing competition and inter-firm rivalry from just the calculation of the concentration ratios as it might be the case that there exist more inter-firm rivalry even among few number of firms that in a market characterized by having a large number of firms but few that enjoy dominating position. Moreover, the analysis become more difficult as there exist several firms that are labeled "private" where in reality the government controls their actions to a large extent hence manipulating the status of competition and inter-firm rivalry.

Second Indicator: Mean-Price Cost Margin

We were not able to calculate this ratio. Instead we calculated the gross profit margin which is in fact the gross profit (revenues minus costs of goods sold) divided by revenues. There was a general trend of improvement in the case of the performance of the private sector, using the gross profit margin as an indicator, relatively to the performance of the public sector after privatization took place. We can interpret from the data as shown in Table 6a and 6b that the performance of the private sector improved significantly in sectors which experienced privatization with enhancing the role of the private sector (i.e. depending on the type of privatization as in the textiles and ready made garments and the metals and machinery sectors). This is compared with equal performance for private and public sectors in sectors where privatization did not lead to enhanced competition or control remained in hands of government as it is the case with food and beverage sector. On average, there was no upward or downward trend for the gross profit margin, with the exception of the ISIC 37 (basic metal products) which showed an upward trend all over the period studied although it is the industry with the highest concentration.

Table 6: Gross Profit Margin (Public & Private)

a) Public

ISIC Code	Definition	90-91	94-95	99-2000
31	Food products, Beverages & Tobacco	10.5%	11.4%	11.9%
32	Textile, garments & leather	15.6%	9.5%	-16.8%
33	Wood & furniture	-11.1%	9.0%	5.1%
34	Paper & products, printing & publication	21.0%	27.8%	8.6%
35	Chemical & products, petroleum, coal, rubber & plastics	23.3%	23.3%	21.0%

36	Mining products, non-metal products, except petroleum & coal	21.6%	27.6%	20.8%
37	Basic metal products	14.9%	12.9%	-6.5%
38	Metal products, machinery & equipment	15.8%	12.2%	1.4%
39	Other manufacture	26.8%	-28.2%	N.A.

Source: Author's calculations based on CAPMAS *Industrial Production Statistics Bulletin*, various issues.

b) Private

ISIC Code	Definition	1990	1994	1998
31	Food products, Beverages & Tobacco	14.4%	11.3%	12.1%
32	Textile, garments & leather	24.5%	16.5%	18.7%
33	Wood & furniture	20.4%	14.9%	16.0%
34	Paper & products, printing & publication	15.0%	18.5%	14.4%
35	Chemical & products, petroleum, coal, rubber & plastics	18.7%	18.1%	24.4%
36	Mining products, non-metal products, except petroleum & coal	27.4%	36.6%	21.4%
37	Basic metal products	11.5%	15.4%	15.8%
38	Metal products, machinery & equipment	22.4%	19.6%	21.8%
39	Other manufacture	20.9%	19.7%	24.9%

Source: Author's calculations based on CAPMAS *Industrial Production Statistics Bulletin*, various issues.

Indicator Three: The Rate of Return on Assets:

We calculated a proxy for this indicator where we used the rate of return on investment (ROI)¹ for both public and private sector as shown in table 7a and 7b. As revealed in the

¹ The concept "Return On Investment" provides a mean to measure the profit obtained from an investment. It measures the profits generated from the total investments of a firm.

table we can identify that the trend for the public sector has been that the rate of return improved between 1990/91 and 1994/95 for almost all manufacturing sectors and then deteriorated afterwards between 1994/95 and 1999/2000 for public and the same trend took place in the private sector. In general the private sector experienced deterioration in this indicator which can be explained as a result of the privatization process and the increased investments undertaken as a matter of restructuring which decreased the rate of return on investments. This is verified by ISIC 33 (wood and furniture) case where the concentration ratio increased significantly and huge amount of investments were pumped in and hence the ROI decreased. This is versus the case of ISIC 35 (chemicals and products, petroleum, coal, rubber, and plastics) where Table 31 shows increased number of large firms in the market and high dynamicity, nevertheless the ROI remained relatively high and do not show large variations around the mean. On the whole, the private sector has outperformed the public sector, where is s clear that most values of ROI for the public sector are declining, going into negative figures or even reaching higher negative numbers contrary to the private sector. The increase or decrease of ROI cannot lead us to any indication on the status of competition and inter-firm rivalry.

Table 7: Return on Investment:

a) Public

ISIC Code	Definition	90-91	94-95	99-2000
31	Food products, Beverages & Tobacco	5.19%	5.58%	4.49%
32	Textile, garments & leather	2.71%	-6.42%	-15.61%
33	Wood & furniture	-16.06%	29.72%	-2.68%
34	Paper & products, printing & publication	2.63%	7.19%	-0.08%
35	Chemical & products, petroleum, coal, rubber & plastics	3.14%	3.99%	4.10%
36	Mining products, non-metal products, except petroleum & coal	-0.60%	3.61%	-4.00%
37	Basic metal products	1.67%	-0.26%	-0.80%
38	Metal products, machinery & equipment	-0.63%	-3.23%	-6.41%
39	Other manufacture	2.22%	-19.25%	n.a.

Source: Author's calculations based on CAPMAS *Industrial Production Statistics Bulletin*, various issues.

b) Private

ISIC Code	Definition	1990	1994	1998
31	Food products, Beverages & Tobacco	-0.04%	0.58%	1.49%

32	Textile, garments & leather	3.90%	1.87%	1.87%
33	Wood & furniture	-3.28%	2.71%	-0.18%
34	Paper & products, printing & publication	5.01%	3.55%	1.74%
35	Chemical & products, petroleum, coal, rubber & plastics	4.27%	4.24%	8.79%
36	Mining products, non-metal products, except petroleum & coal	-1.37%	10.33%	1.71%
37	Basic metal products	1.25%	5.12%	2.38%
38	Metal products, machinery & equipment	7.35%	6.58%	3.66%
39	Other manufacture	5.71%	4.22%	8.95%

Source: Author's calculations based on CAPMAS *Industrial Production Statistics Bulletin*, various issues.

Indicator Four: Mean Rate of Growth of Value Added

This indicator was calculated for the private sector as shown in Table 8. Almost all sectors experienced a decrease in the mean rate of growth of value added with the exception of basic metal products sector (ISIC 37). This is rather a disappointing result as it shows that on average the level of domestic value added in the manufacturing sector is decreasing substantially.

Table 8: Mean Rate of Growth of Value Added

ISIC Code	Definition	Annual Average Growth Rate (%)		
		1990 – 1995	1995 – 2000	2001-2004
31	Food products, Beverages & Tobacco	32.7	18.0	2.1
32	Textile, garments & leather	38.2	5.4	11.7
33	Wood & furniture	39.6	16.5	-13.4
34	Paper & products, printing & publication	75.8	-6.7	-10.4
35	Chemical & products, petroleum, coal, rubber & plastics	33.7	40.4	-1.8
36	Mining products, non-metal products, except petroleum & coal	43.1	20.6	4.8
37	Basic metal products	25.2	5.3	29.0
38	Metal products, machinery & equipment	59.8	3.8	6.9
39	Other manufacture	57.2	81.7	0.0

ISIC Code	Definition	Annual Average Growth Rate (%)		
		1990 – 1995	1995 – 2000	2001-2004
Total	Total Manufacturing	52.2	13.2	4.4

Source: Author's calculations based on CAPMAS *Industrial Production Statistics Bulletin*, various issues.

High value added growth rates can be due to handling data on the partially privatized firms as we discussed before.

Indicator Five: The Gross Entry and Exit of Firms

As shown in the second part of the study we were able to identify the number of registered firms in the period (1990-2002) and the cases of exist represented by bankruptcy and court judgment as shown in Table 3, Part II. In general starting from 1992 there was an increase in the number of firms registered (which means that the number of enterprises which entered the market surpassed the number of enterprises which exist from the market) which implies higher degree of competition and inter-firm rivalry. The simultaneous increase in the number of bankruptcy cases and court judgment reveals that the market was more dynamic where despite the increase in the figures of those two indicators, the net result was an increase in the number of enterprises registered implying an increase in the number of enterprises which entered the market.

However, it should be noted that there are thirty types of exist from the market besides bankruptcy and court judgment as shown in Table 9 which explains the gap between the total number of bankruptcy and court judgment cases and the total number of registered.

Table 9: Types of Exist from the Market

1) Non-renewal	12) Not Related activity	23) Improbability
2) Death	13) Unregistered	24) Travel abroad
3) Abandon trade	14) Court Judgment	25) Administrative investigations
4) No identified physical place for undertaking activity	15) Diminutive capital	26) Cancellation by governor decree
5) No identified physical place for undertaking activity and court decision	16) Merger	27) Cancellation by presidential decree
6) Deletion order	17) Relocation	28) Cancellation by nationalization
7) Firm dissolution	18) Branch annulment	29) Due to auditors' report
8) Firm liquidation	19) Detention	30) Another record on the same registration
9) license annulment	20) Bankruptcy	31) Basic simple activity
10) license give away	21) Detention upon court injunction	32) Nationalization
11) Duplication	22) Change of legal form	

Source: IDSC, unpublished data

Indicator Six: The number and value of mergers and acquisitions

There are two sources that publish the number and value of mergers and acquisitions. The first is the national source in Table 10. The number of mergers and acquisitions increased significantly in 1999, 2000, 2005 and 2006.

Table 10: Number of Mergers and Acquisitions (1996– 2006)

Year	Mergers	Acquisitions
1996	7	1
1997	3	6
1998	1	3
1999	1	44
2000	1	29
2001	0	17
2002	0	14
2003	0	14
2004	0	9
2005	0	37
2006	0	40

Source: Cairo & Alexandria Stock Exchange, Monthly Bulletin, different issues

Table 11 shows the value of cross border mergers and acquisitions as reported by the World Investment Report. Compared to other countries in the Table, the value of cross border mergers and acquisitions that took place in Egypt are far less than similar cases that took place in comparator countries as Morocco and Tunisia especially in year 2001. In general the increase in the number of mergers and acquisitions implies that there is less competition as it leads to higher concentration, however this is not necessarily true as it could be the case that small firms were merged and competition is enhanced as a result of a strategy to survive in the market.

Table 11: Cross-border merger and acquisition overview, 1995-2003

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Egypt											
Sales	10	171	102	48	738	528	660	335	2200	254	1326
Purchases	-	-	-	-	7	213	-	-	3	61	14423
Morocco											
Sales	-	40	578	5	123	-	2211	47	1624	25	1579
Purchases	-	8	-	-	10	-	72	-	-	-	-
South Africa											
Sales	640	1106	2664	1932	1902	1171	11916	2933	1563	1935	7001
Purchases	593	1522	2766	2514	5715	6393	2594	1947	568	2320	528
Africa											
Sales	840	1805	4346	2607	3090	3199	15524	4684	6427	4595	10509

Purchases	645	2148	2800	2678	5762	6659	3041	1999	1067	2718	15505
Developing countries											
Sales	16493	35727	66999	82668	74003	70610	85813	44532	40166	54700	100633
Purchases	13372	29646	35210	21717	63406	48496	55719	27585	31060	39809	83150
World											
Sales	186593	227023	304848	531648	766044	1143816	593960	369789	296988	380598	716302
Purchases	186593	227023	304848	531648	766044	1143816	593960	369789	296988	380598	716302

Source: UNCTAD, *World Investment Report 2006*

Most of the mergers and acquisitions are concentrated in banking and investment (the table in Appendix E shows the mergers and acquisitions by sector) and in construction, especially in cement. The highest value of a merger or acquisition operation up to 2002 was; L.E. 216000 million, which was the acquisition value of Egyptian French Industrial Company (SIFE) by Jacob De Lafon. The lowest value was the acquisition value of El Kinanah Brokerage by El Rajhi Enterprises which scored LE. 0.75 million.

Indicator Seven: Distribution of Firms “The Missing Middle”

Table 12 shows the distribution of firms using the criteria of the number of labor in each firm whereas Table 13 shows the percentage of the medium size firms in relation to the total manufacturing, which is on average not decreasing implying that Egypt is not suffering from the missing middle syndrome. The highest percentage of medium firms is in the chemicals products sector (ISIC 35) as well as in the metal products sector (ISIC 38).

Table 12: Distribution of Number of Firms by Size in the Manufacturing Private Sector

Firm Size	1990	1995	2000	2004
Micro	0.0	0.1	0.1	0.9
Small	88.1	84.3	83.6	80.8
Medium	5.4	6.3	6.0	7.6
Large	6.5	9.3	10.2	10.7
Total	100.0	100.0	100.0	100.0

Micro : number of employees is less than 10

Small : number of employees ranges from 10 up to 49

Medium : number of employees ranges from 50 up to 99

Large : number of employees is more than 100

Source: Author's calculations based on CAPMAS Industrial Production Statistics Bulletin, various issues.

Table 13: Percentage Share of Medium Size Firms according to Manufacturing Sub-activities

ISIC Code	Definition	1990	1995	1999	2004
31	Food products, Beverages & Tobacco	2.1	2.1	2.4	2.6
32	Textile, garments & leather	8.4	8.2	9.5	11.3
33	Wood & furniture	9.2	14.1	8.7	8.9
34	Paper & products, printing & publication	11.7	9.9	10.2	13.7
35	Chemical & products, petroleum, coal, rubber & plastics	13.2	18.5	13.3	16.7
36	Mining products, non-metal products, except petroleum & coal	6.7	6.3	6.5	16.2
37	Basic metal products	10.9	10.3	7.5	13.0
38	Metal products, machinery & equipment	8.6	10.1	12.6	11.5
39	Other manufacture	6.1	6.3	5.0	11.8
Total	Total Manufacturing	5.4	6.3	6.0	7.6

Source: Author's calculations based on CAPMAS Industrial Production Statistics Bulletin, various issues.

Indicator Eight: Percentage of Consumption Supplied by Imports:

Table 14 shows the percentage of consumption supplied by imports whereas table 15 identifies the import structure of each sector. Table 14 shows that the percentage of imports to consumption ranges from a low percent of 25.4 and 25.5 in ISIC sectors 31 and 36 to a high percentage of 76.9 in ISIC sector 33. It should be noted that such percentages represent the total imports and are not confined to imports directed to final or end use as there is no classification that exist in Egypt that can disaggregate data in this manner. Hence, the only observation from the table that can be confirmed is the relatively high percentage of imports to consumption. In general the percentage increased over time implying higher degree of competition.

Table 14: Percentage of Imports to Consumption (%)

ISIC Code	Definition	1990	1995	1999
31	Food products, Beverages & Tobacco	21.9	21.8	25.5
32	Textile, garments & leather	8.6	12.7	19.7
33	Wood & furniture	86.8	81.2	76.9
34	Paper & products, printing & publication	39.9	39.0	33.3
35	Chemical & products, petroleum, coal, rubber & plastics	24.3	23.3	63.1
36	Mining products, non-metal products, except petroleum & coal	8.7	9.5	25.4
37	Basic metal products	29.2	36.7	40.6
38	Metal products, machinery & equipment	48.9	49.0	63.2
39	Other manufacture	50.7	71.5	48.0

Source: Authors' Calculation based on:
UNIDO Demand-Supply Database, 2002.
CAPMAS Industrial Production Statistics Bulletin, 2000.

Table 15: Import Structure of Each Sector

ISIC Code	Definition	Value (million US\$)				Structure (%)			
		1990	1995	2000	2003	1990	1995	2000	2003
31	Food products, Beverages & Tobacco	1492	1425	1377	1001	20.1	15.1	13.0	14.3
32	Textile, garments & leather	252	311	251	235	3.4	3.3	2.4	3.4
33	Wood & furniture	487	612	609	477	6.6	6.5	5.7	6.8
34	Paper & products, printing & publication	344	583	351	245	4.6	6.2	3.3	3.5
35	Chemical & products, petroleum, coal, rubber & plastics	1514	1923	2737	1791	20.4	20.4	25.8	25.5
36	Mining products, non-metal products, except petroleum & coal	115	175	255	120	1.6	1.9	2.4	1.7
37	Basic metal products	708	958	680	540	9.6	10.2	6.4	7.7
38	Metal products, machinery & equipment	2463	3388	4302	2571	33.2	35.9	40.5	36.6
39	Other manufacture	32	55	65	42	0.4	0.6	0.6	0.6
3	Total Manufacture	7408	9429	10628	7023	100.0	100.0	100.0	100.0

Source: Authors' Calculation based on *Industrial Demand-Supply Balance Database (2005)*, UNIDO.

Indicator Nine: Percentage of Exports to Output

Table 16 shows the percentage of exports to output in each sector and for both public and private sector. The percentage differed from one sector to the other, but was high in the case of textiles and ready made garments sector especially for the public sector which can be easily explained as a result of including cotton as a manufactured product. In the case of basic metals sector, it showed good performance, using the indicator of ratio of exports to output, despite that it suffers from high concentration.

Table 16: Percentage of Exports to Output

ISIC Code	Exports / Output	89/90			94/95			99/2000			2003/2004		
		Public	Private	Total	Public	Private	Total	Public	Private	Total	Public	Private	Total
31	Food products, Beverages & Tobacco	0.89%	0.01%	0.6%	2.13%	3.46%	2.6%	2.85%	1.34%	1.8%	2.9%	10.5%	8.2%
32	Textile, garments & leather	21.97%	0.02%	15.3%	30.66%	13.84%	22%	24.91%	7.50%	11.5%	25.6%	35.4%	33.1%
33	Wood & furniture	1.13%	0.00%	0.4%	0.98%	0.41%	0.5%	0.12%	0.01%	0.019%	0.0%	3.0%	2.7%
34	Paper & products, printing & publication	0.01%	0.00%	0.004%	1.28%	0.61%	0.8%	0.10%	0.01%	0.01%	0.1%	6.4%	5.8%
35	Chemical & products, petroleum, coal, rubber & plastics	0.53%	0.00%	0.4%	1.59%	3.42%	1.9%	1.71%	3.13%	2.2%	3.7%	19.9%	11.6%
36	Mining products, non-metal products, except petroleum & coal	0.40%	4.60%	1.8%	0.78%	9.47%	5.8%	1.27%	0.34%	0.5%	24.3%	14.0%	15.0%
37	Basic metal products	20.54%	0.00%	14.5%	22.27%	11.40%	20%	36.12%	13.28%	19.4%	30.3%	25.8%	27.2%
38	Metal products, machinery & equipment	2.66%	0.00%	1.8%	0.77%	1.67%	1.3%	1.68%	0.30%	0.5%	3.6%	5.6%	5.4%
39	Other manufacture	0.07%	0.00%	0.01%	0.00%	17.64%	17.1%	N.A.	N.A.	N.A.	NA	18.6%	18.6%

Source: Author's calculations based on CAPMAS Industrial Production Statistics Bulletin, various issues.

Section Eleven: Conclusion and Lessons Learned:

The above indicators identified several main points. Comparing Egypt with other countries, Egypt does not seem to be lagging behind on average. It is highly comparable with countries as Jordan and Morocco, and in many cases the indicators are highly similar to those of other advanced countries like South Korea.

As for the national indicators, it seems that the structure of the market is still dominated by the public sector though privatization has significantly decreased such dominance. The performance of the private sector in general improved in the period 1995 to 2000 onwards when compared to the period 1990 to 1995 with the exception of the percentage of exports to output. There is no consistency across the board whether between the performance of different sectors or among the different indicators used. However, as regard to competition, it could be safely argued that most of the indicators on average point out that the degree of competition increased. However, increased competition was not necessarily correlated with better performance of the private sector using the different indicators shown. The most obvious example of a highly non competitive industry is the basic metal sector which performed well using different indicators although it remained relatively highly concentrated and suffered from the missing middle syndrome. In other words, economic efficiency is not necessarily correlated with higher degree of competition following the available data. We might be mistaken due to the inconsistency of data and the concordance difficulties. We were not able to determine a conclusive relationship between the size of establishments (in terms of labor) and the economic performance. Enhancing private sector was not translated to more competition and better economic performance. We saw an increase in the size of private sector as a result of privatization, which was accompanied by an increase in the concentration ratio and declining value added growth rate. The conclusion that we reached is that competition induced by policies and regulations have a positive impact on the business environment which is not necessarily reflected in the indicators used in this part of the study if confined to national indicators, either due to inconsistency of data or insufficient time that might have elapsed to show positive impact, or finally due to entanglement of other variables as macroeconomic conditions that are not discussed in this study. However, if we confine ourselves to the comparison of Egypt with other countries, we find that Egypt is doing relatively well as the indicators showed at Part I of the study.

IV. Industry studies of the effects of competition policy enforcement

This part of the study should have dealt with competition policy enforcement, however due to absence of a competition authority's published cases as it has started to function only in April 2006, we had to substitute this part by discussing three case studies where anti-competitive behavior was evident. The cases differ from each other and provide useful insights on the government's intervention in each case, the impact of trade policy and, budget constraints. We focus on the status of competition and inter-firm rivalry. In the steel case, we have the model of a dominant position of one firm which as discussed below seems to have undertaken anticompetitive behavior. In the case of cement, a cartel was formed, whereas in the case of film industry a dominant player has controlled the market for a while which was followed by an oligopoly. The government reacted differently in the three cases. We discuss in each case study a number of criteria including the description of the product, its substitutes if any in consumption, the cost structure, industry structure, location of production, distribution mechanism, entry and exit to the market, technological change, buyers' industry structure, the conspiracy, effects on consumers, effects on producers and finally, summary of industry trends post conviction. The information are not always available on all the criteria aforementioned. We depended mainly on reports, newspaper clips or articles, and existing studies undertaken as the main sources for the information on such case studies.

Case Study of Steel Industry (Rebar) in Egypt

1. Description of Product

The steel industry is an integrated industry with three stages of production. The rebar is the final product that is produced from the three stages of production.

2. Substitutes in Consumption

There are no substitutes to the rebar in the construction sector. Imports of the rebar steel are highly similar to the domestically produced one, though with a better quality and higher prices.

3. Cost Structure

The rebar manufacturing represents 20-40% of the value added whereas the billet manufacturing constitutes 60-80%. This implies that producers of billet are the ones who incur larger effects with world price changes than the ones that produce rebar only. The investment costs of the rolling firms (producing rebar only) is much lower per ton of rebar output than that of the integrated facilities and their margins of risk should be correspondingly lower.

4. Industry Structure

The steel industry in Egypt was subject to total government ownership for almost three decades until the mid-1990s. In the mid-nineties, the private sector started investing in the industry through the establishment of green field projects and the acquisition of state-owned companies. During the 3-year period 1998-2001, 7 new companies entered the market followed by another 2 new companies in year 2002. In 2004, 95% of the current installed capacity was in the hands of the private sector.

There are 19 producers of steel (rebar) in Egypt. The industry has high concentration with the largest three firms accounting for 80% of the market (see Table 1.). In Egypt most of the firms focus only on the last stage (rebar production). There are only three firms that have integrated facilities which include Alexandria National Iron and Steel (ANSDK), the largest company in the sector, Al Ezz Steel Rebars (ESR), the second largest and the Egyptian Iron and Steel Company, which is relatively a small producer. The remainder of the capacity consists of rolling mills that import billets (a semi finished product) for the manufacture of rebar. Egypt's two largest rebar producers, ANSDK and ESR, merged in 1999 to form EZDK. ESR owns a 20% stake in ANSDK. Both companies market their production under a single brand which accounts for more than 70% of local market share (distributed in equal shares between ANSDK and ESR). Since 2002, EZDK started to lose market share as a result of the entry of new firms (e.g. Arcosteel), the resumption of production at other firms (e.g. Egyptian Metal Co. (Hatem), and the addition of new capacity to existing firms (e.g. Beshay Group and Al Attal National Steel Rolling Mill). The dominance of EZDK reduced heavily competition and inter-firm rivalry in the steel market. In fact it created a leadership model type of oligopoly where one firm leads the market and other follows.

Table 1: Market Share of Steel Companies, Rebar

	(Percent)							
Company	1991	1995	1999	2000	2001	2002	2003	2004

Al Watanya Al Baraka Co.	5	6	-	-	-	-	-	-
Al Ezz Steel	-	2.00	7.42	8.14	5.56	3.60	3.31	2.97
Al Ezz Steel Rebars	-	-	20.32	26.29	24.28	23.44	22.10	21.62
Total Ezz	-	2.00	27.74	34.43	29.84	27.04	25.42	24.59
Alex. National Iron & Steel Co. (ANSDK)	54.85	57.48	42.34	38.02	38.48	42.58	46.57	52.57
EZDK	54.85	59.49	70.08	72.45	68.32	69.62	71.99	77.16
International Steel Rolling Mills	-	-	6.81	9.40	8.53	3.95	1.90	-
Egyptian /American for Steel Rolling	-	-	-	-	1.53	9.69	8.04	4.01
Total Beshay	-	-	6.81	9.40	10.05	13.64	9.94	4.01
Kouta Steel Group	19.75	17.16	8.91	4.73	3.80	2.48	2.16	2.17
Al Attal National Steel Rolling Mill	-	-	-	-	1.27	2.91	3.17	3.55
Egyptian Metals Co.(Hatem)	5.49	4.77	1.98	0.28	1.27	0.43	0.14	-
Egyptian Iron & Steel Co.	3.07	2.67	1.39	1.20	1.44	0.86	0.89	1.13
National Metal Industries Co.	0.93	0.81	0.42	0.13	-	-	-	-
Delta Steel Mills	5.05	4.39	2.28	2.81	3.00	1.61	1.64	1.80
Egyptian Copper Works Co.	1.87	1.62	0.84	0.69	0.17	-	-	-
Misr Iron & Steel Co.	-	-	0.59	1.04	1.01	0.72	0.78	0.73
Al Menoufeya Steel Co.	-	-	1.14	1.33	1.21	0.72	0.61	0.46
Suez Co. For Steel Trading (Al Koumy)	-	-	2.03	1.14	1.04	0.58	0.81	1.31
Al Said For Steel	2.74	2.38	1.24	0.85	1.32	0.72	0.86	0.80
Ayyad For Metal Rolling	-	-	0.89	1.10	1.18	1.21	1.64	1.53
Al Arabi Plant For Metals (Sharkawi)	-	-	0.82	0.41	-	-	-	-
Al Temsah Steel Plant	1.32	1.14	0.59	0.69	0.52	0.37	0.35	0.37
Sarhan Steel	-	-	-	1.33	2.51	1.07	0.86	1.04
Arcosteel	-	-	-	0.41	1.90	2.28	1.24	1.22
Al Attayya For Steel	-	-	-	-	-	0.43	0.78	0.34
National Port Said For Steel	-	-	-	-	-	0.35	1.79	2.05
El Maghrbel	-	-	-	-	-	-	0.35	0.34
Total	100	100	100	100	100	100	100	100

Source: Unpublished data

5. Location of Production

There is no specific location for production of the rebar. Firms are spread all over the country, however concentrated in the so called industrial areas.

6. Distribution Mechanism

The firms in this industry have the ability to distribute their products domestically without major bottlenecks. This is not the case with exportation which is limited to a number of firms that are able to cope with the standards and quality needed in the importing markets.

Despite the squeezing of profit margins of rebar producers due to the over supply in 2000 and 2001, they were unable to export this over supply as a result of the low global prices which did not provide a hospitable environment for exporting. In 2001, local rebar prices were approximately US \$236 whilst export prices averaged US \$200. Moreover, exports do not constitute a large share of total production where they account for only 13% of total production and exporting is confined to two producers only, ANSDK and ESR.

At some points in the price cycle, it was rational for local producers to export rather than to cut production, not only to lower average costs but also to source foreign currency, which had become rationed at official exchange rates. The foreign currency shortage caused some producers to enter into a "vicious circle"; where in order to export producers needed foreign exchange for production, and in order to obtain dollars for production, they needed to export. In addition, Egyptian exports of rebar are limited for two main reasons. First, a very limited number of domestic mills are capable of producing material of a high enough quality for the export market, and second, even for those who can export, prevailing prices in potential export market fall slightly below domestic prices. Hence firms preferred to cut down their production rather than exporting to overcome the over supply problem.

The export outlook darkened for most countries as a result of the imposition of a tariff ranging between 15% and 30% on rebar and flat steel imports by the US in March 2002. The EU reacted by issuing a similar decree with tariffs ranging between 14.9% and 26.0%. This had a combined effect on local exporters, as 80% to 90% of Egyptian steel exports end up in either the US or the EU. Egypt obtained an exclusion from US tariffs (as did Israel and Jordan). However, US imposed an import quota for Egypt that was subject to periodic revision. Egypt was exempted from EU tariffs on rebar but not on flat steel. Overall, the effect on Egyptian producers was positive as they benefited from higher export prices to the US. Rebar export prices rose to US \$260 per ton in 2002, from US \$200 per ton in 2001. However, Egyptian exporters benefited from higher prices only on the volumes set by the quotas which were confined to the two natural exporters ANDSK and ESR and other new exporters who were trying to upgrade the quality of their products. As a result exports percentage of total production rose slightly to more than 15% in 2003.

Regarding the Egyptian rebar trade balance, it remained positive where exports exceeded imports, due to the persistent increase in the production capacity of the firms in Egypt since mid 1990s and the difficulties encountered in importing. Hence, even when the government relaxed the imports restrictions to press the prices down, importing of rebar did not surge. Among the main reasons are that steel is one of the products where its importation require full cover of the letter of credit (reaching 100%) which causes difficulties in its importation, and the distribution channels are highly constrained.

7. Entry or Exit

Despite the high concentration in the steel rebar market which has been increasing over time due to the dominance of EZDK the market experienced entry of new firms even in 2001 and 2002. The entrance of the new firms led to the dominant player's decline in its market share. Exit has also been experienced by a number of firms in the market. However the easy entry and exist to the market did not lead to enhanced competition and inter firm rivalry as the dominancy of the leading company continued.

8. Technological Change

The steel industry is not a high tech industry. However upgraded machines are needed to satisfy the quality required in the importing markets. In fact, lack of technological upgrading has prevented many firms from enjoying the ability to export.

9. Buyers' Industry Structure

There are no specific characteristic of the buyers' industry structure where the whole construction industry (which includes firms, individuals, and the government) deals with the steel market either directly or through distributors.

The steel rebar industry did not suffer price fluctuations or sharp increases before 1999. The price fluctuations started since 1999 onwards. As described above, starting 2000 declining demand and rising supply resulted in a large gap which prevented producers from raising prices due to the existence of over supply. This was exacerbated by a decline in the price of rebar imports in 2001, especially from the former Soviet countries and the Far East. Furthermore, there was pressure both from the government and the public to prevent price rises subsequent to the devaluation of December 2001.

In 2002 the Egyptian rebar market was still facing problems. Much of the decline in demand stemmed from the huge decline in public sector construction projects which have resulted in the fortunes of the construction industry becoming increasingly dependant upon private sector activity. Unfortunately, this meant that the construction activity and hence rebar demand has become more sensitive to the price of building materials. This explains the large decline in rebar sales in early 2002, when the increased costs of production for the rebar producers, resulted in sizeable price increases. Buyers were unwilling to pay such prices and consequently withdrew from the market.

However, in mid 2002, local producers could no longer support the weak pricing environment, where a rise in importing costs could not be passed on to customers (especially after devaluation), and raised prices by approximately 35% from L.E.1100 to L.E.1500 per ton from June to July 2002. ESR/ANS SDK led this price rise (see Table 2.). They were helped by a rise in international steel prices. However, competitive pressure and public opposition pushed prices back down.

Table 2: Steel Rebars Prices during the Period 1999-2004 (L.E per Ton)

Year		EZDK	Others
1999	Average Price (Annual)	1,109	1,021
	Max	1,240	1,119
	Min	1,025	942
2000	Average Price (Annual)	1,175	1,015
	Max	1,188	1,034
	Min	1,150	994
2001	Average Price (Annual)	1,184	1,090
	Max	1,214	1,132
	Min	1,164	1,066
2002	Average Price (Annual)	1,425	1,366
	Max	1,623	1,581
	Min	1,247	1,172
2003	Average Price (Annual)	2,073	2,075
	Max	2,542	2,742
	Min	1,551	1,584
2004	Average Price (Annual)	2,991	2,942
	Max	3,198	3,250

	Min	2,685	2,727
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Source: Unpublished Data.

Helped by a weakening of the exchange rate on the parallel market towards the end of 2002, steel prices began to rise again. With the devaluation of late January 2003, rebar prices rose significantly and reached L.E. 2,030 per ton in April 2003, up from L.E. 1275 in April 2002 per ton a year earlier, a rise of more than 50%.

In 2004 prices jumped to L.E. 2605 per ton, which although high remains lower than comparable countries in the region. For example the price in Saudi Arabia was L.E. 3148 per ton, L.E. 4185 in UAE and L.E. 3550 in Kuwait, L.E. 3404 in Jordan, and L.E. 3456 in Syria.

Besides the devaluation which led to such sharp increases in the prices of rebar, the high profit margin of distributors was among the main culprits for this increase in prices. However, there were several other exogenous factors that led to this sharp increase in prices. Among such reasons are the following: 1) increase in price of inputs (mainly billet) worldwide; 2) high demand of China ; 3) increase in price of transport after Iraq war; 4) increase in demand by countries working in reconstruction of Iraq; 5) flourishing of construction and economic activity in some Arab countries which increased demand on steel; 6) increased inventory by some traders who used to have large inventories of steel during Iraq war to sell it after the end of the war with high prices.

In 2004, local prices seem to have stabilized at around the US \$ 450 level or L.E. 2,900 with slight fluctuations after the sharp increase it reached mid 2004 where it approached L.E. 3250 per ton (approx. 450US \$).

10. The Conspiracy

ANSDK was established in 1982. In 2005 it had a market share of 37% and has been the largest steel producer in Egypt. It is also the largest player in the Egyptian steel rebar market. The principal shareholders include a number of Egyptian public sector organizations, the general public, a Japanese consortium and the International Finance Corporation (IFC). ESR owns 20 % of its shares whereas ANSDK employees share holder owns another 11.8% and the Government and state owned entities own 45% of the shares. In 1999, ESR (founded in 1994 and controlled effectively by Ahmed Ezz who owns 73% of its shares) acquired 20% of ANSDK and its management control (renamed Ezz Dekhila EZDK). Ahmed Ezz, the founder of ESR, manages both companies, implying that he controls more than 65% of the market. In addition, ESR has also invested 30.6% in a start-up, Al Ezz Flat Steel (EFS), also controlled by Ahmed Ezz. This implies that Ahmed Ezz is in a dominant position of controlling the decisions in the steel market in general and in the rebar market in specific¹, specially that if we take into account that ANSDK and ESR are two of the only three firms in Egypt that have integrated facilities for production of both billet and rebar. ESR and ANSDK have combined their brands for marketing purposes under a new brand 'EZDK'. The acquisition of ESR of ANSDK created negative sentiment in the market towards the new entity and antitrust issues were raised for the first time.

¹ It is possible that Mr. Ezz controls a further 18% held by a Luxembourg offshore company.

During July 2002, some local firms have attempted to kick demand. Beshay Group initiated a series of price cuts seen in August 2002. Within two weeks the firm implemented two separate L.E. 80/tonne declines. This was greeted by a sharp price cut by EZDK, which Beshay, as well as other firms could not match. As argued by some commentators a deal was reached between Ezz and the other firms to stop such price war. The result has been that prices have begun to rise again, but remained below levels seen at the beginning of August.

It was argued by rebar producers that Ezz was behind initiating the antidumping cases against the imported billet which reached four cases in the period 1998-2003 (see below) and relatively increased in frequency after the merge of EZDK. According to the rebar producers, the only beneficiary from such dumping is EZDK and that public interest has not been taken in consideration. Ezz argued back that he is among the largest importers of billet and that he has suffered from the rise in price due to the imposition of antidumping duties.

Besides, the speculation about this legal anticompetitive behavior through initiating these series of antidumping duties, Ezz undertook several legal measures that increased his domination of the market. His political muscles (being a member of the ruling party, a parliament member, and the head of the planning and budget committee in the parliament) in addition to the soft budget constraint he enjoys due to his dominance of the market allowed him to initiate several measures that could kick other competitors out of the market. Moreover, and because of his soft budget constraint, he was able to undertake several measures during recession, which cannot be maintained by other firms, to increase his market share. For example, EZDK reintroduced credit sales. In an attempt to stimulate demand, EZDK once again accepted credit sales in August, 2002. Whilst a positive move for the market as a whole, it has meant that dumping of EZDK material has resumed. Moreover, EZDK linked compensation offer to contract quantities. In an environment where prices are expected to fall, buyers often delay their purchases. In order to eliminate such practice, EZDK offered a compensation package whereby if prices are cut; the company will refund the difference on 50% of the previous month's purchases. Such initiatives introduced by EZDK allowed the company to increase its market share by over 1% to reach 67%. In contrast, Beshay group's sales as a proportion of apparent consumption fell again to around 12%. However, and despite less production in 2002 than 2001, Beshay and another firm have commissioned new lines.

In 2004, it was argued that the Ezz was behind the skyrocketing of prices of rebar. The government had to interfere by asking the General Authority for Auditing² to write a report on the reasons behind the sharp increase in prices of rebar. Surprisingly during the investigations and writing of the report³, EZDK reduced its prices to reach L.E. 2750 for one ton after including taxes where it was L.E. 3250 before the General Authority for Auditing issued its report. This sudden decrease in prices show the monopolistic attitude of Ezz firms as the prices worldwide did not decrease with the same percentage in addition to the fact that the firms that are vertically integrated are not affected negatively by world price changes as others that are not. However, and

² This Authority is an independent body that monitors all PUBLIC firms' auditing files to report any corruption incidents.

³ The report is confidential and is not allowed to be circulated. It was allowed only for some members of the parliament to review it.

despite such decrease in prices, it still did not reach the fair price where the real cost of producing one ton in 2003 reached L.E. 1719 (as confirmed by some producers) which when added to its financial costs of L.E.123 for each ton show that prices are still overvalued.

A final signal of prevailing anticompetitive behavior was the reduction of the prices of rebar by L.E. 150 per ton after the removal of the antidumping duties in 2004, which confirms that Ezz has misused his dominant position in raising prices (see Table 3.).

Table 3: Steel Rebar Prices after Stopping Antidumping Duties (L.E. per Ton)

Month	EZDK	Others
January	2,685	2,727
February	2,832	2,890
March	3,124	3,250
April	3,198	3,222
May	2,901	2,755
June	2,695	2,768
July	2,695	2,917
August	3,175	2,962
September	3,184	2,974
October	3,184	2,983
November	3,184	2,996
December	3,037	2,860
Average 2004	2,991	2,942

Source: Unpublished Data.

Contrary to the argument mentioned above that integrated firms are able to absorb price shocks, some commentators argue the opposite. Because the manufacturing of rebar represents only a minor portion of the cost structure (see above), it is the producers of billet who incur larger effects with price fluctuations in the international market. Hence, in 2000 and 2001, the significant fall in international steel prices, including that for billet, led to an expansion in the margins of rolling firms (producing rebar only) relative to those at integrated producers. The price of inputs for the integrated producers did not drop as much as it did for the rolling mills which affected negatively their profitability in a more acute manner than affecting that of the firms producing rebar only. Indeed, this disparity has led to a debate in Egypt as to whether billet imports should be subject to extra duties to protect local billet producers.

The lack of availability of foreign currency was another constraint facing all producers forcing them to reduce production further and raising average costs even more. However, by the end of 2002 and the beginning of 2003, after further weakening of the exchange rate, local steel prices began to rise. The poor environment faced by local producers since 2000 has caused some firms to close their operations (such as Ahleya for Metallurgies and the Arabic Company for Metallurgies). The contraction in demand for steel in Egypt from 2000 not only

coincided with an expansion in capacity but also with the devaluation of the L.E. The devaluation raised the L.E. cost of production for companies because 55% to 85% of their costs are foreign currency dominated. Some firms were operating at a capacity utilization rate of as low as 8%. Others, such as ANSDK, although keeping the utilization rate at 73% in 2000, had a severe cash crunch. In integrated facilities, the raw materials used in the manufacturing of billet are either scrap, such as that used at ESR, or oxide pellets (treated iron ore) used at ANSDK. Internationally, there has always been a time lag between fluctuations in rebar prices and fluctuations in raw material prices (scrap, oxide pellets and billets). This time lag is sometimes in favor of steel producers, depending on which steel product is leading the price move. For example if rebar prices rise before raw material prices, this is in favor of steel producers and vice versa.

Differences in the price fluctuations of steel products are a function of the magnitude of price movements as well as the aforementioned time lags. Sometimes rebar prices experience a steeper rise compared to those for billet or scrap and vice versa. In 2002, rebar export prices rose by 19% to US \$ 240 per ton, whilst billet prices rose by 12% to US \$200 per ton and scrap prices rose by a huge 26% to US \$130 per ton. Matching the international trend, local rebar prices also rose by 23% in 2002 to an equivalent of US \$274 per ton. As a result, in 2002, integrated local rebar producers using scrap as raw material in manufacturing billet, were at a disadvantage to rolling mills importing billets directly. This meant that the margins of integrated producers such as ESR were hit harder than those of the rolling mills such as Beshay despite the former having a lower foreign currency exposure in its production cost base than the latter.

On the other hand, integrated producers using oxide pellets as raw materials, such as ANSDK, suffered the least in 2002 as oxide pellet prices dropped 4.6% to US \$ 41 per ton. ANSDK was further helped by having the lowest level of foreign currency exposure in its cost base. It is worth noting that the price of oxide pellets is set annually and is not determined at the London Metal Exchange (LME) as is the case with other steel products.

The price war is a reflection of the natural phenomenon of the excess of capacity over demand makes without intentions of anticompetitive behavior. New entrants and new lines have added to the downward pressure on prices. Once market share stabilizes among the different players, downward pressure on prices should decrease. The logical next step would be for an exit of high cost producers. High cost producers fall into two categories: Those private sector players with either small scale or inefficient facilities and state players with old-fashioned facilities and overstaffing. Uncompetitive private sector players will either engage in consolidation or exit the market.

The contraction in demand for steel in Egypt (which is a function of the construction industry that has been heavily hit by the liquidity squeeze of 1999) coincided with an expansion in capacity and the devaluation of the L.E. The devaluation raised the L.E. cost of production for firms because 55% to 85% of their costs are dollar denominated. In 2002, the supply/demand imbalance meant that Egyptian steel producers were unable to raise their L.E. selling prices to fully respond to an increase in their costs. As a result, margins contracted severely. Furthermore, capacity

utilization plunged as a result of both capacity expansions and a decline in the demand for steel. The drop in capacity utilization further increased average costs. Some local producers reacted by extending credit to their customers so as to defend their market share and encourage sales in a weak demand environment. This resulted in a jump in receivables days on hand for some producers occurring concurrently with a rise in borrowing rates, causing a significant rise in interest expense. Other producers accumulated large amounts of inventory of finished products taking their working capital needs to unsustainably high levels.

One line of argument is that the ESR/ANSDK deal saved the local market from a further plunge in prices. However, we would argue that with or without this deal, the largest producers would have reached a consensus to stabilize prices, as had always been the case before the merger.

11. Effect on Consumers and Producers

Over the period 1995 to 1999, growth in consumption was sufficient to absorb the entrance of newly established private sector firms, where it reached a compounded annual growth rate of 18%. In fact the rebar consumption grew from 1.8 million tons in 1991 to 4.2 million tons in 1999 due to a surge in construction activity and increased private sector participation in the economy. However, the drop in consumption from 2000 (by 20% from 1999), and no growth rate in 2001 and a further decline by 5% in 2002, together with continued capacity increases, created a very large gap between supply and demand. In 2002, local consumption was equivalent to only 60% of installed capacity down from almost 100% in 1999. The rush by the private sector into this industry led it to over invest. Over 1995-99, growth in consumption was sufficient to absorb the entry of private sector firms. However, the drop in consumption which started in 2000 created a very large gap between supply and demand. This was exacerbated by further private sector investments in 2001, which had been planned in earlier years. In 2000, Egypt produced 3.4 million tons (14.5% of Middle East production). In 2001 and 2002, capacity reached 5.5 million tons in both years whereas consumption was a mere 3.3 and 3.1 million tons in each year respectively. See Tables 4A and 4B for the evolution of production and consumption over the period 1995-1999.

Table 4A: The Evolution of Production of Rebar by Producer (1991-2004) (In thousand tons)

Company	1991	1995	1999	2000	2001	2002	2003	2004
Al Watanya Al Baraka Co.	-	-	-	-	-	-	-	-
Al Ezz Steel	-	42	300	258	193	125	115	97
Al Ezz Steel Rebars	-	-	821	833	843	813	767	707
Total Ezz	-	42	1,121	1,091	1,036	938	882	804
Alex. National Iron & Steel Co. (ANSDK)	1,000	1,206	1,711	1,205	1,336	1,477	1,616	1,719
EZDK	1,000	1,248	2,832	2,296	2,372	2,415	2,498	2,523
International Steel Rolling Mills	-	-	275	298	-	-	66	-
Egyptian /American for Steel Rolling	-	-	-	-	-	-	279	131
Total Beshay	-	-	275	298	-	-	345	131
Kouta Steel Group	360	360	360	150	-	-	75	71
Al Attal National Steel Rolling Mill	-	-	-	-	-	-	110	116
Egyptian Metals Co.(Hatem)	100	100	80	9	44	15	5	-
Egyptian Iron & Steel Co.	56	56	56	38	-	-	31	37
National Metal Industries Co.	17	17	17	4	-	-	-	-
Delta Steel Mills	92	92	92	89	-	-	57	59
Egyptian Copper Works Co.	34	34	34	22	-	-	-	-
Misr Iron & Steel Co.	-	-	24	33	-	-	27	24
Al Menoufeya Steel Co.	-	-	46	42	-	-	21	15
Suez Co. for Steel Trading (Al Koumy)	-	-	82	36	-	-	28	43
Al Said for Steel	50	50	50	27	-	-	30	26
Ayyad for Metal Rolling	-	-	36	35	-	-	57	50
Al Arabi Plant For Metals (Sharkawi)	-	-	33	13	-	-	-	-
Al Temsah Steel Plant	24	24	24	22	-	-	12	12

Sarhan Steel	-	-	-	42	-	-	30	34
Arcosteel	-	-	-	13	-	-	43	40
Al Attayya for Steel	-	-	-	-	-	-	27	11
National Port Said for Steel	-	-	-	-	-	-	62	67
El Maghrbel	-	-	-	-	-	-	12	11
Total	1,733	1,981	4,041	3,169	2,416	2,430	3,470	3,270

Source: Unpublished data

Table 4B: The Evolution of Consumption of Rebar over the Period 1991-2004 (In thousand tons)

	1991	1995	1999	2000	2001	2002	2003	2004
Company	1991	Qty	Qty	Qty	Qty	Qty	Qty	Qty
Al Watanya Al Baraka Co.	90	117	-	-	-	-	-	-
Al Ezz Steel	-	42	301	216	231	120	118	97
Al Ezz Steel Rebars	-	-	846	811	810	633	651	605
Total Ezz	-	42	1,147	1,027	1,041	753	769	702
Alex. National Iron & Steel Co. (ANSDK)	942	986	1,375	1,231	1,215	1,278	1,345	1,310
EZDK	942	1,028	2,522	2,258	2,256	2,031	2,114	2,012
International Steel Rolling Mills	-	-	275	298	296	137	66	-
Egyptian /American for Steel Rolling	-	-	-	-	53	336	259	131
Total Beshay	-	-	275	298	349	473	325	131
Kouta Steel Group	130	360	360	150	132	86	75	71
Al Attal National Steel Rolling Mill	-	-	-	-	44	101	99	69
Egyptian Metals Co.(Hatem)	100	100	80	9	42	15	5	-
Egyptian Iron & Steel Co.	56	56	56	38	50	30	31	37
National Metal Industries Co.	17	17	17	4	-	-	-	-
Delta Steel Mills	92	92	92	89	104	56	57	59
Egyptian Copper Works Co.	34	34	34	22	6	-	-	-
Misr Iron & Steel Co.	-	-	24	33	35	25	27	24
Al Menoufeya Steel Co.	-	-	46	42	42	25	21	15
Suez Co. For Steel Trading (Al Koumy)	-	-	82	36	36	20	28	43
Al Said For Steel	50	50	50	27	46	25	30	26
Ayyad For Metal Rolling	-	-	36	35	41	42	57	50
Al Arabi Plant For Metals (Sharkawi)	-	-	33	13	-	-	-	-
Al Temsah Steel Plant	24	24	24	22	18	13	12	12
Sarhan Steel	-	-	-	42	87	37	30	34
Arcosteel	-	-	-	13	66	79	43	40
Al Attayya For Steel	-	-	-	-	-	15	27	11
National Port Said For Steel	-	-	-	-	-	12	62	55
El Maghrbel	-	-	-	-	-	-	12	11
Total	1,535	1,878	3,731	3,131	3,354	3,085	3,055	2,700
Imports	219	437	426	85	36	32	-	-
Total Consumption	1,754	2,315	4,157	3,216	3,390	3,117	3,055	2,700

Source: Unpublished data

With local consumption in 2002 falling by 5% to 3.1 million tons as a result of the low level of construction activity and the overall recession, competition in 2002 and the following years was even fiercer than in 2001. Egypt's annual steel consumption was in

the range of 65 kg per capita in 2001 whilst GDP per capita was US \$1500. This is significantly lower than for other countries with similar levels of GDP per capita and suggests some room for growth even if we assume that GDP per capita does not grow. In 2004, several measures (see below) were undertaken to enhance consumption by relaxing restrictions on imports. However, such measures did not increase imports as they remained largely constrained.

12. Summary of Industry Trends Post-Conviction

The government has intervened on ad hoc basis due to the absence of a competition law. In many instances, it was perceived that the government actions were not strong enough to control the anticompetitive behavior.

The government reactions varied from protecting the dominant position of the largest market controller to dismantling such protection. The intervention was always based on different grounds. For example, it was argued that the Egyptian government played a significant role in sheltering the local steel industry from the ravages of a depressed global pricing environment in 2000 and 2001. Hence, it imposed antidumping duties on imports of rebar, billet, and oxide pellets and scrap which were already subject to relatively high tariffs of 23%, 7%, and 4% respectively (including all government charges). In addition the government has implemented anti-dumping laws and duties of over 40% on imports from selected countries. An example of government action with regard to low steel prices can be seen in the way in which it dealt with rebar imports from Latvia, Moldova, Romania, Ukraine, Turkey and Russia in different years. Anti-dumping duties of between 22.6% and 61% were imposed on steel (rebar and billet) coming from Turkey, Kazakhstan, and Russia, Ukraine, Romania, and Latvia. The antidumping cases raised by the Egyptian Antidumping Authority against steel products reached 4 cases out of a total of 18 general antidumping cases raised between 1998 and 2003 (22%) As a result, Egypt imported only 85,000 tons of rebar in 2000, 36,000 tons in 2001, and 32,000 tons in 2002, a significant drop from the 440,000 tons imported in 1999.

In 2004, the government's position changed dramatically. First, it asked the General Authority for Auditing to write a report and investigate the reasons behind the surge in prices, which if would have chosen anticompetitive behavior could have led to serious repercussions on Mr. Ezz, however the report did not show that but it recommend the enactment of a competition law and reduction of tariffs and antidumping duties. Second, with the change of the government in July 2004, the Minister of Foreign Trade and Industry undertook an action by stopping the antidumping duties on rebar and billet in August 2004. He did not abolish antidumping duties but stopped them to ensure that if world market prices increased he can reassume the antidumping duties to protect the domestic industry. Another decision of reducing tariffs on steel from 20% to 5% preceded the decision of stopping antidumping duties. Some believe that this will help to enhance domestic competition however others believe that stopping antidumping duties will allow the large producers to increase domestic prices, especially the domestic costs of production increased to reach a selling price of L.E. 3250 for one ton including taxes and profits of distributors whereas the imported price reached L.E. 3500. In addition obstacles to importation which include decision by Central Bank of Egypt of full

coverage of letter of credit and absence of dealers and importers in this field can lead to negative effects on the industry.

The interventions of the government aimed at the beginning to shield the domestic producers from foreign competition. Government's intervention changed in 2004 by trying to enhance competition. Inter firm rivalry should have been affected accordingly, but the impact was insignificant in both cases.

The rebar case study points at the abuse of dominant position, rather than cartel and collusion. As the case study has revealed, whether there has been actual abuse of dominant position or not is debatable. The government's intervention has been on ad hoc manner without clear view of whether it wants to protect certain segment of the steel industry or benefit the whole society even if at the expense of fair competition.

What is evident in this case is that the two hypotheses of hard budget constraint and trade policy play a role in affecting the competition status in a certain market. For example, during the price surge, the large firms were able to extend credit facilities (due to their enjoyment of soft budget constraints) to increase their sales where other firms failed to. Such behavior intensified the status of unfair competition. Moreover, the reduction of tariffs and stopping antidumping duties were seen as necessary, but not sufficient conditions to enact competition in this industry. The inability to bear the fruits of fierce competition from rebar imports was a result of other internal constraints embedded in the difficulty of importing which rendered the reduction in tariffs and stopping of antidumping duties useless to a great extent. The steel case study confirms the main theme of the study project which is enhancing private sector does not necessarily imply more intense competition. The steel industry case study that enhancing private sector without undertaking the necessary institutional arrangements can result in negative consequences. The delay in introducing such institutional arrangements (e.g. the competition law) could render many of the pro-competitive policies as liberal trade policies ineffective as the anticompetitive behavior becomes rooted in the economy.

Case Study of the Egyptian Cement Industry Case

1. Description of Product

Cement in general is not a homogenous product and there exists several types of cement. However, for the sake of this case study we do not differentiate between different types of cement as it will not affect our analysis. Our focus is on the cement used in the construction process.

2. Substitutes in Consumption

There are no substitutes for the cement used for construction. However, the imported cement is a perfect substitute for the domestically produced one.

3. Cost Structure

In general, cement industry depends heavily on imports where the domestically utilized inputs for the production of one ton do not exceed 10% of the costs of production.

4. Industry Structure

The industry started in Egypt by establishment of Torah factory in 1927 (joint venture between Switzerland and Egypt) and Helwan in 1929 (joint venture between Denmark and Egypt). Alexandria Cement (joint capital between Torah and Helwan) was established in 1949, followed by National in 1956. In 1961 Torah, Helwan and Alexandria were nationalized. Afterwards the Government of Egypt (GOE) established a number of factories including Suez Cement in 1967, Assuit in 1985, Ameriyah in 1989, Beni Suef in 1992, Misria in 1996, and Misr Qena in 1997.

In the early 1990s, the entire cement sector was state-owned. Today, approximately 70% of the Egyptian cement sector capacity is partially or wholly owned by multinational firms. Starting late 1990s, the private sector started entering the market and a number of private firms were established. This happened in two ways: either through the establishment of greenfield plants (Egyptian Company for Cement (ECC), Misr Beni Suef, Sinai, Qena) or the acquisition by private companies of franchises previously owned by the state⁴. In an attempt to champion the domestic state-owned players, the government actively pushed Suez Cement, itself majority state-owned at the time, to acquire a 66% stake in Torah Cement, in the face of a bid from ECC. Suez Cement funded the deal through the state owned National Bank of Egypt. In late 2001, Helwan Cement was sold to the Arab Swiss Engineering Company (ASEC). ASEC is 51% owned by Suez Cement, Torah, Helwan, Alexandria and National.

Multinationals were attracted to Egypt by the large and growing market with healthy margins in the late 1990s. Low energy and labor costs were an advantage, besides the geographical position of Egypt. Those producers with relatively modern plants, such as Ameriyah and Suez Cement, managed to have very high profit margins in the late 1990s.

⁴ The privatization started by selling 42% of Misr for Cement to Holokom, in 1999 it sold 95% of Beni Suif Cement to Lafarge, and 96% of Assut Cement to CEMEX. In 2000, 88% of Alexandria for Cement was sold to Blue Circle, and 91% of Cement Amreya was sold to French company SIMPOR and 34% of Suez Cement to French Cimentiahi Group.

The economic slowdown led to a collapse in the growth of demand in 2000-02 and left producers stuck with excess cement capacity which was the time when multinationals started entering heavily in the market.

In 1999 when the privatization process started, the housing bubble had already been burst and the real estate sector was suffering a severe slump, which was bound to have an effect on demand for cement. Furthermore, on the supply side, sizeable new capacity was expected to enter the market: By 1999, ECC had already started operations and was expecting to add an additional 3 million tons of new capacity over the following three years. With a planned total capacity of 7 million tons, ECC alone added capacity equals to almost 30% of the total existing market capacity of the time. Sinai Cement started operations in 2000, adding around 1.4 million tons. Qena and Misr Beni Suef were in the pre-operation stage and were expected to add a total of almost 3 million tons.

In 1999, Suez Cement and Torah Cement were the market leaders. However, since 1999, they have lost market leadership to other producers, especially the two leading private sector companies; Assuit (Cemex) and ECC (Holokom /OCI) which were able to take market share away from government controlled firms through better management, innovative distribution and aggressive marketing techniques. Another important factor in the gain in market share of ECC and the loss of market share at Torah, Helwan and National was that ECC brought on stream very efficient methods of production at the same time as Torah, Helwan and National were operating inefficiently.

The entry of the private sector represented a turning point in the market. Since that entry of the private sector in the market the share of government investments in this sector decreased from 33% of total investments in 1991 to 13% in 2001. It must be borne in mind that investments made at the time were a function of the availability of franchises. In other words, if the multinationals had not made the decision to invest in the Egyptian cement market at that time, it would have been difficult to predict when other franchises might be available for sale later, if at all or whether there would have been any left to buy given that other multinationals were keen buyers. The interest of multinationals to invest in the Egyptian market was a function of under supply and high profit margins.

In 2004 the total number of firms in the cement market reached twelve companies. The multinationals were controlling and fully owning 40% of the total domestic market and the domestic private sector controlling (fully and partially) about 59%. Hence, the fully state owned firms were left with less than 1% of the market.

The entry of private firms and especially multinationals enhanced competition and inter firm rivalry at the beginning, but afterwards such competition was reversed and some sort of cartel was formed hence minimizing competition and reducing inter firm rivalry.

CEMEX wholly owns Assuit, and LAFRAGE owns Alexandria and Beni Suef, whereas ASIC controls the majority of shares in Portland. The Egyptian Company for Cement is the largest on the list of the domestic private firms followed by Sinai, and then South of Wadi and Kina where they control 59% of the market. The National Company for

Cement is the only firm owned by the government and its market share is 1%. Table 5. shows the privatization that happened since the mid 1990s in the cement market together with mergers and acquisitions whereas Table 6. shows the development of the market shares, exports and imports of cement in the period 1999 to 2002.

Table 5: Privatizations, Mergers, and Acquisitions in the Cement Market (1999-2006)

Company	Acquirer	Date
Beni Suef Cement	Lafarge – Titan	1999
Alexandria Cement	Blue Circle	1999
Assuit Cement	Cemex	1999
Torah Cement	Suez Cement	2000
Ameriyah Cement	Cimpor	2000
Suez Cement	Ciment Francais	2001
Helwan Cement	ASEC Cement	2001
Blue Circle	Alexandria Cement	2004
Ameriyah Cement	Cimpor	2004
Ciment Francais	Ameriyah Cement	2005
Beni Suef Cement	Alexandria Cement	2005
Ciment Francais	Suez Cement	2005
Orascom Construction Industries	Egyptian Cement Company	2005
Suez Cement	ASEC for Cement	2005
Suez Cement	Ready Mix Birton (Egypt)	2006
Suez Cement	Ready Mix Birton	2006

Source: EFG – Hermes (2004), Stock Market Exchange dataset.

Table 6: Market Structure

000 (tons)	1999	Market Share	2000	Market Share	2001	Market Share	2002	Market Share
ECC	1531	5.6%	3459	13.1%	4824	18.0%	5476	20.4%
Assuit Cement	3458	12.6%	3383	12.8%	3527	13.2%	4186	15.6%
Suez Cement	3767	13.7%	3658	13.9%	3745	14.0%	3702	13.8%
Torah Cement	3565	13.0%	3137	11.9%	2799	10.5%	2568	9.6%
National Cement	2939	10.7%	2587	9.8%	2387	8.9%	2457	9.2%
Ameriyah Cement	2500	9.1%	2600	9.9%	2488	9.3%	1882	7.0%
Helwan Cement	3098	11.3%	2919	11.1%	2436	9.1%	1731	6.5%
Beni Suef Cement	1278	4.6%	1336	5.1%	1466	5.5%	1432	5.3%
Sinai Cement	0	0.0%	0	0.0%	917	3.4%	1240	4.6%
Alexandria Cement	985	3.6%	981	3.7%	1088	4.1%	1215	4.5%
Qena Cement	0	0.0%	0	0.0%	0	0.0%	651	2.4%
Misr Beni Suez	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Imports	4391		2296		1082		270	
Exports	0		0		0		1657	
Total Consumption	27512		26356		26759		26810	
Market Capacity	25300		27700		31300		33500	
O/W dry	21800		24200		27800		32700	
O/W wet	3500		3500		3500		800	
Market Gap (incl. wet)	2212		-1344		-4541		-6690	
Market Gap (excl. wet)	5712		2156		-1041		-5890	

Source: Cement Council and EFG Hermes (2003)
(Wet) refers to wet kilns currently operating, not those mothballed.

5. Location of Production

The cement industry is characterized by being regionally distributed where due to the nature of the product (being costly in terms of transport), production takes place near domestic markets or near ports. Table 7. shows the regional distribution of cement production in Egypt.

Table 7: Main Sub Regional Markets

Region	Players
Northern	Ameriyha and Alexandria Cement
Central	Torah, Helwan, National, ECC, Suez
Red Sea	Suez and ECC
Southern	Qena, Assiut, Beni Suef, and Misr Beni Suef
Sinai	Sinai Cement

Sources: Cement Companies and EFG-Hermes

6. Distribution Mechanism

The distribution of the cement production has two channels, either domestically through dealers or for exporting. The dealers were accused of undertaking several anti-competitive behaviors (see below) which resulted in the price increases in the domestic market. Moreover, the regional allocation of cement production led to several cheatings where firms were selling in regional markets in which they were not allowed to.

If we focus on the international trade dimension of cement we find that Egypt’s status turned from being a net importer to being a net exporter in less than ten years. Such change resulted in affecting the distribution of cement on domestic basis. In 1993, Egypt was the second largest importer of cement all over the world. At that time, the price of one ton of cement was sold domestically at a price of L.E. 250 (which when converted to US \$ using the exchange rate prevailing at that time was equal to 60US \$). In 2003, the price of one ton sold domestically reached L.E. 270 (with the equivalent exchange rate of 30 US \$) which means that prices in terms of dollars were reduced by about 50%. Between 1993 and 2004 the price was down to L.E. 140 at the early 1990s (see Table 8. for the average prices between 1996 and 2001). Prices averaged plus or minus L.E. 148 in 2001, declined in 2002 (ranged between L.E. 112 and L.E. 134) and rose up again in 2003. The prices domestically are expected to continue rising where it increased by 22% between May 2003 and May 2004 from L.E. 180 for one ton to L.E. 220. In August 2004, the prices reached L.E. 300.

The fluctuations in prices may appear as a result of simple supply-demand analysis. On the one hand, the slowing down in consumption which started in 1999 coincided with an increased number of new firms entering the market. This combination led to a rapid shift from supply deficiency to excess supply and hence lower prices and profit margins. On the other hand, the construction boom in the Gulf and the reconstruction of Iraq accompanied by the higher profit margins from exporting rather than selling domestically

are the main reasons behind the skyrocketing of prices in 2003 and 2004 where despite of excess capacity producers preferred exporting rather than selling in the domestic market.

Table 8: The range of average product prices of three cement companies (Suez, Torah, Helwan) from 1996 to 2001:

Year	Average price
1996	160.4 to 170.9
1997	174.3 to 177.4
1998	175.2 to 190.0
1999	180.9 to 208.0
2000	169.9 to 199.6
2001	162.2 to 180.0

Source: Cement Council (2002)

Cement prices in Egypt are set at three different levels in the distribution chain: ex-factory, wholesaler and retail. The ex-factory price includes the government sales tax and other taxes. End user prices are reached by adding transportation costs and margins for agents. Retail prices tend to vary widely, depending on market conditions and seasonality. During the period of strong demand (the summer months), retail prices can exceed wholesale prices by up to 25%-30%. Local prices of cement in Egypt increased dramatically over the period 1991-98 to reach a high of US \$52 per ton in 1998. Since then, the rising trend has reversed and prices have declined, reaching an average level of US \$33 per ton in 2002. In 2002, the cement market witnessed a very tough pricing environment. Ex-factory prices declined throughout 2002: They averaged L.E. 163 per ton in the first quarter of 2002, L.E.154 per ton in second quarter of 2002, L.E.166 in third quarter of 2002 and L.E.130 in fourth quarter of 2002. This resulted in a decline of profit margins for all producers. It is worth noting that the decline in margins at relatively efficient companies such as ECC was highly muted compared to the decline in margins of state-influenced or controlled cement producers such as Suez Cement and Torah Cement. During the first two months of 2003, ex-factory prices averaged approximately L.E. 120-125 per ton. In March, cement prices jumped to L.E. 175-180 per ton. At current ex-factory prices and exchange rates, local cement prices are higher than export prices.

In March 2000 the average price of selling Cement ton in the world market ranged from US \$ 39 per ton to US \$ 110 per ton. The Egyptian price averaged US \$ 35.5-55.7 per ton.

Egyptian exports of cement are the highly competitive in the region where the price of exported ton is US \$ 35.5 compared to US \$ 40 in Oman, US \$ 50 in Saudi Arabia, and US \$ 60 in UAE and Iran. Egypt utilizes its comparative advantage and geographical location being near to several markets in Europe, and Africa. The largest importer is Spain, followed by Libya, and then Yemen, Algeria Sudan, Italy, Ghana, Senegal, Turkey, USA. In 2002, there was a sharp rise in exports reflecting over-capacity in the industry. The average export price of cement increased in 2003 compared to 2002 as a result of the outbreak of a cement shortage in the region, the rise in the international freight rate and the fact that producers became more adept at negotiating better prices for

their export deals. In addition, In L.E. terms, export prices surged relative to their levels in 2002 especially following the L.E. floatation of January 2003. As a result, export margins, which were lower than local margins in 2002, became almost equal to or higher than local margins in 2003.

Egypt ranked the fifth in 2003 among the whole world in exporting cement following Thailand, Turkey, Indonesia and Japan where it replaced China. The exports are expected to be further positively affected by the adoption of a floating exchange regime which enhances the Egyptian exports' competitiveness. Table 9. shows the change in the amount of cement exported by Egyptian firms between 2002 and 2003 whereas Table 10. shows the distribution of exporting shares of Egyptian firms . With the shift in the capacity/demand balance in 2000, companies started to sell the excess capacity abroad. Current excess capacity in the market is estimated at 6 million tons. This has led to exports to nearby markets enjoying a supply deficit. These include Sudan, Libya, Algeria, Tunisia and countries along the Red Sea coast. Export prices provide a floor to local prices, especially so once companies successfully manage to penetrate markets overseas. The Egyptian cement industry is well positioned to become an exporter into the Mediterranean basin and the Red Sea. It enjoys very low energy costs due to Egypt's reserves of natural gas. Cement companies buy gas at the price at which it sold to the multinational gas companies. The proximity of the cement plants to the gas fields means that the cement producers save on processing and transport costs.

As long as Egypt's gas reserves last and processing and transport costs remain relatively low, Egypt's cement industry will benefit from a sustainable competitive advantage of low energy costs.

It should be noted that, excluding ECC, cement companies have not yet realized their full potential as far as exports are concerned. Many are still in the early stages of penetrating foreign markets.

Table 9: Egyptian Exports of Cement till November 2003 (in million tons)

Company	Jan 2002- Nov 2002	Jan 2003-Nov 2003	% of change
Torah	0.426	0.797	87.3%
Helwan	0.08	1.11	1301%
Suez	0.823	0.316	61.6%
ECC	0.691	1.926	178.5%
Sinai	0.176	0.369	109.8%
Kawmiya	0.284	0.771	171.4%
Siani for White Cement	-	0.158	-
Misr Qena	0.016	0.53	3213%
Misr beniSuef	-	0.198	-
Assuit	-	0.257	-
Beni Suef (LAFRAGE)	-	0.145	-
Alexandria (LAFRAGE)	-	0.145	-
Ameryia (Sempor)	-	0.023	-
Total	2.49	6.746	170.3%

Source: Cement Council and EFG Hermes (2003)

Table 10: Breakdown of Exports Market Share (FY 2002)

ECC	42%
National	22%
Sinai	15%
Suez	8%
Torah	6%
Helwan	6%
Qena	1%

Source: Cement Council

7. Entry or Exit

The cement industry as revealed above did not suffer from any problems regarding market entry by both private domestic firms and multinationals. The exit of firms (specially the public owned firms) was easy. The entry of firms was either due to greenfield investments or brownfield through mergers and acquisitions. After the market has become saturated and the number of mergers and acquisitions increased dramatically, it is very likely that entry into this market will be more difficult. However, easy entry and exist might have had a positive effect on competition and inter firm rivalry at the beginning. Nevertheless, entry and exist after the cartel has been formed and the market has had high degrees of concentration did not benefit from enhanced competition and inter firm rivalry as any new entrant had to join such cartel.

8. Technological Change

Technological change is not a crucial factor in the cement industry. In fact one of the main reasons that multinationals came to the Egyptian market, was the low level of environmental standards in Egypt which could enhance their profits as they would not have enjoyed such low levels of environmental standards in their own countries.

9. Buyers' Industry Structure

As mentioned above, the cement producers either sell domestically or export. Selling domestically normally takes place through dealers who were claimed to have played a major role in increasing the anticompetitive behavior prevailing in the market.

10. The Conspiracy

There has been some sort of geographical distribution of production as explained in Table 7. where each firm had its own geographical area to sell in, without approaching other areas. As argued by some commentators, one of the main reasons that led to the huge drop in prices in 2002 was that multinationals sold their excess production in other regions than those specified to them at lower prices than in their own region. Such behavior negatively affected cement producers and especially the state owned and small private non multinational firms which were not able to compete by lowering their prices.

A pricing agreement was concluded by the end of 2002 where representatives of almost all local cement producers met and set a price range for cement of between L.E.167 and L.E. 176 a ton. Cement producers admit their agreement constitutes a short-term solution. As argued by some cement producers the root causes of the price decline need to be addressed which is ensuring that no price wars take place. Such agreements are usually

concluded at times of price wars and are often broken later on. There was another informal agreement among cement producers in 2003 to stop the price war and agree on a certain price.

The multinationals formed a cartel and controlled both quantities produced and prices. In beginning of 2004 Helwan for Cement which was overtaken by multinationals stopped its production to raise prices and instead of producing 11 thousand tons on daily basis it reduced it to 5.3 thousand tons.

Some analysts blame the multinationals arguing that they are behind such price wars where they aim to lower prices to an extent even below costs to get other wholly domestic private firms out of the market. They argue that wholly domestic private firms are usually small and cannot undertake the burden of having losses for along time. Moreover, they cannot easily export their access capacity as they lack the strategy and human capital needed for such mission. The end result is incurring severe losses to the state owned firm and other private domestic firms to either get them out of the market or follow the policies imposed on them by multinationals.

Moreover, price fluctuations affected negatively several related industries and traders. For example, from the repercussion of such fluctuations in prices what happens in government procurement which is governed by Law 89 of 1998 where the bid is reached after 3 months from its submission, hence contractors when they submit a price, after three months they can find huge increases in the prices which can cause them losses. This resulted in contractors not entering the government procurement bids to avoid such losses, and hence this had negative repercussions on the employment in this sector.

Some arguments of some insiders see that the cement industry does not suffer from any kind of anti-competitive behavior. They view price fluctuations as a result of the non normal conditions when privatization started, which led to enhancement of technology and increase in production. Combined with weak experience in exporting activities, there was a domestic price war which led to this non normal reduction of prices. The domestic inputs do not represent more than 10% of the costs used. In addition after a careful financial analysis we find that each ton of cement produced from a factory with capital of L.E. 1 billion where half of this capital is loans pays on average L.E. 60 as interest rate on such loans for each ton produced and if we add L.E. 30 for each ton produced as return on the capital we find that each ton is burdened with L.E. 90 as indirect costs, adding to that costs of labor, packaging etc we find that the fair price (factory door price) ranges from L.E. 232- 270. There is no monopoly in the market, and the multinationals control only 42% of the market. The price discriminations between the export price and domestic price are normal. There are no collusive agreements among producers of cement regarding pricing or geographical allocation. Moreover, among the cement produces there is one firm which is wholly owned by the state and there are another 2 where the government have large shares which means that that those three firms control 30% of the market. Despite that agencies and distributors may help in increasing prices, their presence is essential. Moreover, they view that the establishment of organizing body (as the one in telecommunications) does not fit the nature and number of firms in industry.

The first large fluctuation in prices started in 1997/1998 when prices fluctuated heavily between L.E. 196 and L.E. 215 for each ton and reached its peak in the high season (summer) to reach unprecedented prices of L.E. 300 per ton. Several reasons were behind this increase in prices and included a number of firms were undertaking maintenance at that date. The bad practice of some dealers (agencies and distributors) by not selling to increase prices in the high season intensified the problem and the physiological effect of increased demand during high seasons were the main reasons behind the skyrocketing of prices. The Public Sector Ministry investigations following the price crash in 1997/1998 found out that the real causes of an increase of over 25 per cent in black market prices was a result of the shortage which has been attributed to the anti-competitive practices of five traders who stored huge amounts of cement in their depots in an effort to manipulate market prices. The problem was exacerbated by the fact that some cement factories halted their production over the past few weeks in order to undertake necessary renovations to their plants. These closures coincided with the increased demand in the market. As a result, the factory price of L.E. 183 rose to as much as L.E. 300 in the black market. Besides, some argue that the increase in prices is a result of simple supply demand analysis where the mega projects undertaken by the government and the construction boom in the late 1990s are the main culprits for raising the prices of cement.

The rise in prices in 2003, which was initially set following the informal agreement among cement producers in 2003, were held up not because of such agreement but as a result of other factors embedded mainly in the more profitable chances of exporting excess capacity. Such chances of profitable exporting was accompanied by a number of other factors including: 1) producers became more mature, eventually learning how to exploit export opportunities, reducing the downward pressure on local prices. 2) Given that export prices provide a floor to local prices, the rise in export prices suggested that the floor for local prices was now sustainably higher. 3) The shutdown of wet kilns, which took place mostly in 2002, helped reduce the pressure on local prices in 2003 by reducing industry capacity as compared to previous years. 4) Following the damage done by numerous price wars that the market had witnessed, a sustained rise in cement prices was, to some extent, a normal corrective result necessary to improve financial returns that had been decimated, even for the most resilient players. 5) The increase in production costs which is a result of the increase in prices of power with more than 30% so as the costs of labor and the devaluation which helped in the increase in prices.

11. Effect on Consumers and Producers

Due to the entrance of multinationals there was a huge increase in the production capacity. The increase in production reached 170% between 1985 and 1990 and 72% between 1995 and 2003. Production capacity reached more than 33,000 tons in 2003.

Moreover the domestic consumption increased from 10.5 million ton in 1985 to 15.8 million ton in 1990 to 18.5 million ton in 1995 to 26 million ton in 1999. Such huge growth in consumption was not matched by an equal growth of supply which created a supply shortage. This shortage was filled by imports reaching 4.4 million tons in 1999 (equivalent to 16% of total consumption). Consumption has declined slightly since 1999, yet production capacity has increased significantly. From 1995 to 1999, cement demand

grew at a compounded annualized growth rate (CAGR) of almost 10%, representing twice the GDP growth rate for the period, driven by the real estate boom and heavy government spending on infrastructure and Mega Projects. However, since 1999 demand has experienced a negative CAGR of 0.9%. Egypt's per capita cement consumption, at 407 kilograms per capita, is low relative to emerging markets counterparts but high relative to the country's GDP per capita. Local cement consumption declined 3% in 2003 to 25.7 million tons from 26.5 million in 2002. In 2004, the gap between local demand and supply reached more than 10 million tons where the local demand figured around 25 million tons and the supply reached 35 million tons.

The gap between local and export demand combined and capacity narrowed to 3.6 million tons compared to 5.6 million tons in 2002. Under these supply and demand conditions, it is normal that prices should have declined which has not been the case as investigated in the coming section. See Table 11. for the total amount of cement produced, consumed and, exported over the period 1995-2002.

Table 11: Development of Production Capacity, Consumption and, Exports (1995-2002)

(000 MT)	1995	1996	1997	1998	1999	2000	2001	2002
Total capacity	17200	17700	19200	21200	24600	27050	28600	31000
Consumption	18001	19480	21153	23727	27541	26334	26751	25840
Exports	267	428	410	91	33	46	79	2801

Source: Cement Council and EFG Hermes (2003)

Average capacity utilization in the sector fell from 92% in 2000 to approximately 85% in both 2001 and 2002. In 2002, despite the slowdown in local demand, exports helped boost the capacity utilization of several companies.

In summary, consumption and production were significantly affected by the price fluctuations. Consumers benefited for a while from the price war and the overvaluation of the Egyptian pound, however they suffered afterwards when price war stopped and was combined by devaluation which made the exporting market more profitable than selling domestically for the cement producers. Domestic cement producers suffered from the price war which implied that they either had to leave the market or join the cartel organized by the multinationals. The end result was that they joined the cartel and acted as free riders enjoying the high prices set domestically by the main key players. In fact they had no alternative to behave in this way.

12. Summary of Industry Trends Post-Conviction

The government used to interfere in the cement industry since its inception. The first initiative was in 1932 when there were only 2 firms in the market and the government established a body to coordinate the process of selling the production of the two firms, and undertake the responsibility of its marketing in the domestic market.

In 1958, and as a result of the increase of the firms in the market (reaching 4), a new body "Office of Selling Egyptian Cement" was established to market the Egyptian

cement in local and foreign markets. Each of the existing firms was represented by two in this new body. The body was also responsible for coordinating the process of production, exporting surplus, importing necessary inputs and intermediates, and undertaking market research and forecasting.

With adoption of a free market policy and increased privatization, the system was not suitable and hence in 1994, the “Office of Selling Egyptian Cement” was restructured and adopted a new policy where each of the firms was linked with identified distributors and agencies which were given a certain quota by this firm each month to sell. It was renamed as the “Cement Industry Committee”. Another main job of this body was controlling prices of cement in the Egyptian market, a job historically undertaken by the GOE even in times of excess demand where prices were not allowed to increase. Moreover, the GOE used to interfere to ensure import control through imposing duties which ranged from 10-20%. Such intervention has been viewed differently. Some viewed the imports’ duties as providing unnecessary protection for Egyptian producers who exploited their power in negative terms and closed the doors in front of highly price-competitive alternative to local cement production. Others believed that such duties protected the local industry from dumping of imported cement

Starting 1996, when the privatization program started and the Government started to lose its control on the market. The Office of Selling Egyptian Cement was not able to handle the first crisis of cement prices in 1997/1998, the. The government interfered by several means:

- 1) It allowed large constructions projects to buy directly from cement firms without having to deal with dealers.
- 2) It imposed a certain increase in production for all firms.
- 3) It imposed penalties on dealers who undertake anti competitive behavior such Stopping any activity related to inventory of cement for a period that exceeds two weeks.
- 4) It asked banks to monitor financial transaction of dealers to ensure that they do not increase prices in high seasons.

In the second week of August 2004, the Government announced its readiness to interfere to stop the rise in prices of cement which reached very high limits that were never reached before which affected the construction sector negatively and resulted in recession. Hence, the GOE in August 2004 abolished the tariffs on cement which ranged from 10 to 20%. Moreover, the Minister of Foreign Trade and Industry announced that there is a trend towards establishing some sort of a regulatory body for organizing the cement industry which includes representatives from the cement producers and the government which will be responsible for setting policies related to production, quality, costs, exports to ensure efficiency of production, fair distribution, and stability of market.

The traders of cement announced that the Ministerial decree related to tariff reduction on cement will not help in reducing the domestic prices of cement as the world market prices for cement are higher than the domestic prices. In addition, the domestically produced cement is of a higher quality than that imported due to the comparative advantage that

Egypt has in producing cement. On the other hand, there was a group of specialists who were quite optimistic where there was high expectations that the dual decisions of abolishment of antidumping duties on steel and tariffs on cement will lower the prices of cement sold domestically.

The actual short term effect of tariff abolishment was not very positive where the price of one ton increased from L.E. 280 to L.E.300. The arguments differ in trying to explain such counterproductive result of tariffs abolishment where some analysts believe that it is the behavior of agencies and distributors which is behind such increase in prices where other believe that the prices are still in its normal range and that it was under priced before. There is nothing remarkable or “chaotic” in this price behavior given the fluctuations in supply and demand over the period. Certainly cement companies, Egyptian-owned and foreign-owned, would prefer higher prices but this is no justification whatever for regulatory intervention in pricing decisions. Prices appear to have recovered since the May – June period of seasonally low demand.

Today, Egypt faces a greater challenge in convincing investors that they can earn adequate returns on their investment than in combating colluding companies that are earning high profits. The prominent monopolies or price-fixing arrangements in Egypt are sanctioned by government, although private collusive arrangements no doubt exist as well. The soft budget constraints enjoyed by multinationals allowed them to control the market. Trade policy in terms of removal of tariffs was not able to solve the problem due to product differentiation and the lower domestic price prevailing than export price. It appears at this stage in Egypt’s development that government policies are more likely to be the cause of economically destructive competitive restraints than private collusion.

Case Study of the Film industry in Egypt

1. Description of Product

The film is a product that can be shown in cinemas, sold in the form of video tapes, CDs or DVDs, or shown in Television (paid or non-paid).

2. Substitutes in Consumption

The traditional film that used to be shown in cinemas is now threatened by the proliferation of paid TV channels, advances in technology where it is now can be easily copied in CDs and DVDs besides the video tape format.

3. Cost Structure

The cost of producing a film differs significantly from one film to the other ranging from half a million Egyptian pound to more than ten million Egyptian pounds. The main problem related to the cost of producing films in Egypt is the absence of bank financing which results in the necessity of depending on self finance. Banks are always reluctant to finance production of films due to the absence of physical collateral and high degree of risk involved.

4. Industry Structure

The film industry in Egypt is characterized by having a high degree of concentration in all its segments. The Industry is divided into five main segments⁵: production, distribution, shooting process (ownership of studios), printing and development of films (laboratories) and cinemas. In theory, a firm when registered by law as a firm working in the field of film industry is allowed to be engaged in all of the five aforementioned activities so as well as other activities specified according to the law⁶. In practice, firms have chosen to specialize in one or two activities. Nevertheless, such phenomenon of specialization has started to change recently by moving towards vertical integration, hence overcoming the segmentation of the different activities and increasing the level of concentration in the whole industry⁷. For example, according to the information obtained from the Chamber of Cinema Industry, the number of firms registered as firms having the right to undertake the different cinema activities reached more than 450 firms. However in 1992, 5 firms produced more than 50% of the total films with the share of the first one reaching more than 27%. The other 50% were produced by 29 firms. Between 2000 and 2006 only 3-4 firms have been the regularly active firms in the production activity. The distribution activity is analogous where 5 firms control 75% of the market. The same is

⁵ Such classification is based on an interview with the head of the Chamber of Film industry and other experts in the field. It is non-conventional in the sense that it does not follow international or national guidelines, however it elaborates how the specialization in the different related fields is undertaken in the Egyptian Film industry.

⁶ The Higher Council for Culture is responsible for issuing such licenses. There are annual fees that have to be paid separately on each of the following activities: production, broadcasting (which is related to the cinemas' activity), shooting, printing & development, sound recording, transformation (refers to transformation from a normal film format to video format or other kinds) and distribution. See Ministerial Decree No. 113 for 1993 for the Minister of Culture.

⁷ Recently, few firms with relatively large capital and 35-40 permanent employees on their paying-roll have entered the business of production, distribution and ownership of cinemas, increasing the degree of vertical integration. This was undertaken mainly through mergers and acquisitions among existing firms

true in the case of cinemas' ownership where two newly established firms have bought a large number (more than 60%) of the existing working 175 cinemas in Egypt. The phenomenon of the sole proprietor (family business) company is evident in the case of the Egyptian film industry. In the case of laboratories and studios business, the market structure is characterized by having few companies. Collusion has started to increase lately in this market where high concentration and the proliferation of vertically integrated large firms implied that collusion is the only way out for small firms to survive in the market through subcontracting.

The film market is characterized by a specific feature of seasonality where films are usually broadcasted in certain seasons during the year. This implied fierce competition in such seasons where demand is usually concentrated.

Moreover, there is a geographical concentration of the cinemas in Greater Cairo⁸ and Alexandria that reaches more than 90% (Council of Cultural Castles, 2001).

Foreign presence in the Egyptian film industry, though allowed by law and has been encouraged by recent laws and regulations, is minimal. The heavy participation of the foreigners is concentrated in the distribution of American films which is controlled by few American firms' representatives.

Table. 12 summarizes the different market structure indicators of the film industry in Egypt.

Table 12.: Different Market Structure Indicators of the Film Industry in Egypt

• Vertical Integration	<i>Increasing rapidly</i>
• Market Concentration	<i>High</i>
• Cinema's Geographical Concentration	<i>High</i>
• Direct Involvement of Government	<i>Low but recently increasing</i>
• Foreign Capital Participation in Production	<i>Weak</i>

5. Location of Production

Not relevant, however as mentioned above there is high concentration of cinemas in Cairo and Alexandria.

⁸ By Greater Cairo, we mean three governorates which are Cairo, Giza and Qalyobiya. About 20 million inhabitants live in Greater Cairo.

6. Distribution Mechanism

The film has many distribution outlets, where it is generally starts by distributing it domestically through a distributor and in relevant foreign markets through another distributor. The distributors have generally played an important role in depressing the price of films purchased which affected negatively the profitability of producers. Other types of distribution (especially in video tape format) had its own channels, which is now vanishing due to its substitution by other methods as paid TV channels, CDs, and DVDs.

7. Entry or Exit

The entry to the market has been relatively easy before the formation of the new firm (see above in the industry structure). However since that firm entered the market it has resulted in difficulty of entry for new producers and large number of exists of old small size producers who were not able to compete with the vertically integrated firm at the beginning and with the oligopolistic market structure that prevailed afterwards unless they depended on a sub-contracting scheme. In the last two years, namely 2005 and 2006 limited number of large producing firms has entered the market hence lessening the negative effect of the hegemony of the large incumbent producing firm.

Moreover, the entry and exit in this market extends to independent producers who used to have small firms before the entry of large vertically integrated firms in the market. With the change of the structure of the market, the entry of those independent producers became dependant on the good will of subcontracting films to them from large firms.

8. Technological Change

It plays an important role in the different phases of film production. Due to the relative backwardness of technological development in Egypt in this field several producers used to print their films and/or undertake other related activities in other countries which increased the cost of production.

9. Buyers' Industry Structure

Normally in the case of film industry the buyers are distributors. However with the introduction of the vertically integrated firms the buyers were not necessarily independent distributors as the integrated firms distribute their own films in different cinemas (which they probably own).

10. The Conspiracy

There are several arguments as revealed from the interviews that show that there is prevailing anti-competitive behavior. The dominance of few firms in the market that are highly vertically integrated has forced all players in the market to play according to their rules. Hence, they controlled the independent producers who cannot compete with them and seek to be subcontracted. They controlled the distribution channels and cinemas where they can prevent a film not produced by them to be showed in different cinemas owned by the controlling firms. There was even a case of a movie whose producer argued that one of the controlling firms in the market prevented his film from being shown in another Arab county where this firm owns a number of cinemas there. The absence of a competition law was the main culprit for such behavior. Moreover, an investment law (law 8/1997) was passed and it granted large firms (with capital more than 10 million

Egyptian pounds) specific tax exemptions. The different producers see such exemptions as discriminatory behavior from the government that should aim at having a level playing field between large and small producers rather than discriminating against small ones.

Owners of the controlling firms argue on the contrary that they never prevent a producer, or a director from working with them. They have a quality controlled selective criteria, based upon they decide which films they will produce. Moreover, they argue that they can never prevent a film from not being shown as they do not own cinemas in the whole country, but they preserve the good seasons for the films they produce which is a normal attitude that is being adopted in all industries. They argue that they help to flourish the film industry in Egypt where the lack of finance has been the major reason behind its deterioration. By being vertically integrated they ensured that the Egyptian film is not under priced when sold from the producer to the distributor and they cover their costs as they enjoy economies of scale by being able to show the film in different cinemas. Some believe that Law 8/1997 aimed at ensuring that the players in the field of film production should be large enough to face competition and hence that law aimed at increasing mergers and acquisition for the sake of the Egyptian industry as a whole and not for the aim of enhancing the larger players against the small ones.

The presence of controlling firms has reduced the competition and inter-firm rivalry between small firms where its impact on the few dominating firms cannot be assessed as it might have increased the rivalry between them and might have resulted in collusion among them. Data and information available do not allow us to reach a conclusion regarding this issue. It is very difficult to assess whether there has been anticompetitive behavior or not. There are no clear criteria for assessing whether a film should be distributed or broadcasted or not. Moreover, even the revenues arising from specific films which can be used as a criterion for deciding on the actor or director performance are manipulated if the number of cinemas where the film can be broadcasted is constrained and controlled by some firms. The nature of the market which can only allow some form of constrained competition does not allow a fair assessment. However, it is worth noting that production of films has proliferated in the 2005 and 2006 to unprecedented levels reaching between 40 and 50 films per year, which is relatively high compared to a low of 16 films in 1998.

11. Effect on Consumers and Producers

According to the data available from the Chamber of Cinema Industry there has been on average more than 40 films produced annually (a more detailed breakdown: average of 20 films between 1927 and 1945; average of 50 films between 1945 and 1990 and average of 44 films between 1990 and 2000). A peak was reached in 1988 with 112 films produced. Afterwards there has been a declining trend and the number of films produced reached a minimum of 16 films in 1998. Such downward trend is difficult to relate to the ineffective policies and regulation that have prevailed for a long time and hence can not be the culprit for the weak performance. However, the upsurge in the number of films produced in the mid eighties and the declining trend afterwards should be interpreted with caution. The interviews revealed that the upsurge does not reflect a flourishing industry but rather a short term phenomenon arising from the availability of generous

financed advertisements interrupting the films when distributed in video format which encouraged producers to produce low quality films with low budgets to gain from their distribution on video tapes when such advertisements are included. The downward trend afterwards reflects the shift of such advertisements to satellite and pay TV channels, which prevented the producers from such generous form of finance and hence returned the industry to its initial position of scarcity of finance.

The prices that we deal with in this case study are not the normal price tickets of watching a movie, which although should be regulated are in fact left completely to market pricing decided upon by supply and demand and by the nature of cinema (e.g. there are a number of five stars hotels that have opened cinemas in their campus and their prices are relatively higher than those located in poor areas). We rather deal with the prices of the films sold by producers to distributors, which according to the interviews have been suppressed since a long time and have faced downward pressures.

The impact on individual producers was negative as they had no place in the market due to hegemony of the vertically integrated firms and hence they either had to exit the market or work through sub contracting schemes with the vertically integrated firms. Such an action depressed their profits. As for consumers there is no clear evidence that the vertical integration in the film production and the anti-competitive behavior affected them. It is not clear whether such newly integrated firms have reduced the number of films or not or have affected the quality of films produced.

12. Summary of Industry Trends Post-Conviction

The Egyptian laws and regulations do not contain any provisions that discriminate against foreign firms registering for one or all of the activities related to the film industry.

There are a number of restrictions related to the foreign films broadcast domestically. In fact, Egypt was one of the countries that have asked for an MFN exemption in the audiovisual sector in the first GATS round of negotiations. Moreover, the Minister of Culture has discretionary power to determine the number of foreign films to be distributed by a domestic firm engaged in producing Egyptian films. Identifying a number of films to be distributed was thought of as a method of finance to Egyptian producers who can use the profits from the distribution of foreign films to finance the production of domestic films. Such a ratio was 1:5 where a producer who produced one Egyptian film has the right to distribute 5 foreign films with five copies per film maximum. Such a regulation has been facing endless debate where some of the producers asked for the increase in such ratio where the people concerned with cultural aspects and social impact of the Film industry in general refused such increase. The regulation has been altered by the Minister of Culture to 1: 8 while the number of copies from each film remained the same and then back to 1:5. There is no economic logic behind such regulation but rather weak protective interests, especially when we take in consideration that such a regulation has never been applied to firms performing only in the area of the distribution of foreign films. There is discrimination in tax treatment of foreign and Egyptian films, which defy the national treatment provision. Regarding screen quotas,

Egypt do not apply them except in a very marginal way in exceptional pre-determined events and it has a non binding import quota.

Egypt, to a large extent, does not follow the norm in providing substantial support to the film industry. There has been a great decline in the amount of direct support provided by the government for that industry whereas the indirect support (in terms of tailoring rules and regulations for its favor) has been ineffective⁹.

The government has retreated from different activities related to the film industry starting from the early 1970s. It retreated from the production of long entertainment films activity in 1971 and since the beginning of the 1970s it has been selling a number of cinemas that it has owned¹⁰. In the studios business, their ownership remained in the hands of the government, but it has leased two of the five existing major studios in the country to the private sector. Hence, an overall trend is obvious regarding the diminishing role of the direct involvement of the government in the Film industry. However, there is a reverse new trend where the government has recently started being engaged in production of long entertainment films through the establishment of a new body in 2001 as a reaction to the recent move of mergers and acquisitions happening in the private sector based on the fear of the dominance of the private sector in this field taking in consideration that the government involvement can provide this balance in the market. (The Production and Distribution Body is an independent body in which the government owns the lion's share in its capital). It aims at flourishing the film industry, especially after the disappearance of an active role for the governmental agencies that used to operate in the past.

The government is a large producer of short documentary films that are not highly profit oriented. The private sector engaged in such activity depends mainly on selling historical documentary films abroad. There are a number of firms engaged in such activity reaching about 10 firms.

The government does not provide any form of direct grants or subsidies for the production of long entertainment films. There is a draft law for initiating this idea but still in it's very early preliminary stages and not expected to materialize soon. There is a new semi governmental body where the share of the government in the capital is more than 50% that aims at producing cinema films. The newly established body started to function in 2004 by producing a couple of films and hence its role cannot be assessed at this early stage. Its main aim is to flourish the Film industry especially after the problems it has experienced regarding finance. In 2005 and 2006, a few number of large producers

⁹ In 1957 a presidential decree was issued to establish Institution of Cinema Subsidization. However, by time this institution was not effective and its role faded out. It is now under the umbrella of the existing Cultural Development Fund.

¹⁰ Prior to 1952 the government was not engaged in the Film industry. Starting from Nasser era, the government has been heavily involved where a number of governmental organizations were created to enhance the Film industry. Such organizations included the Public Company for the Arab Cinema Production, The Public Company for Cinema Studios, the Public Company for Distribution and Presentation of Cinema Films, the Egyptian Public Company for World Cinema Production, the Public Company for Cinemas and, the Cairo Company for Cinema. Starting 1971, some of those companies have retreated while others remained. Nevertheless, by time those which remained have reduced their activities.

(integrated vertically in many cases) started to dominate the market. In fact the emergence of such large producers lessened the negative effect of the market being divided among two firms and paved the way for more competition and flourishing of the market. On the other hand, the role of the new governmental body started to fade away.

The film industry has rather minimum protective measures, at least in practice, when compared to the Film industry in the EU or in other OECD countries. There are no effective screen quotas¹¹. There is an import quota since 1973 of 300 foreign films per year (Ministerial Decree no. 459 of 1973). However, it has never been binding.

Law No. 8/1997 did not aim in the first place to increase the degree of concentration which was already high, but rather aimed at increasing the capital of the existing firms to overcome the financial obstacles that hinder the Industry from development and enjoy economies of scale (and soften their budget constraint). Nevertheless, the tax exemption provided in the provisions of the law for firms with large capital did not encourage firms to merge (not to mention that it was challenged in courts as it was against the Constitution). In fact, the latest move of mergers took place after the establishment of the aforementioned private firm in the year 2000 which forced other small and medium firms to merge to be able to face the challenge of competing with it. The absence of a competition law or sectoral regulation is a major loophole in the institutional setup required to balance the incentives provided by the government to establish firms with large capital and encourage mergers and acquisitions against the possibility of arising anti-competitive behaviors which might affect negatively the whole industry.

The industry is moving rapidly towards mergers and high concentration which could have positive (economies of scale) as well as negative effects (anticompetitive behavior). The absence of a competition law or sectoral regulation is a major loophole in this regard. The domestic film industry is slightly favored in terms of indirect taxes imposed on it compared to imported films, but there is no discrimination when it comes to explicit subsidies, as there are no direct subsidies provided. Other rules and regulations, despite discriminatory in some regard are ineffective with the exception of the system used to provide incentives for the distribution of Egyptian films versus foreign films which could imply some explicit discrimination against foreign films.

The trade protectionist tools used by Egypt did not serve their aims, and that the threat from destroying the Industry due to imports is magnified. The curing of the ills of the Film industry lies actually in domestic reforms which are explained below and not in the usage of protectionist tools that have proven to be ineffective.

Regulatory reform is heavily needed in the film industry due to the proliferation of ineffective rules and regulations. A major reform would be to introduce a comprehensive law that take in consideration all the necessary rules and regulations needed to enhance

¹¹ There is a law that was issued in 1956 (Law No. 373) that asserted the necessity of each cinema presenting an Egyptian film at least for one week per season where the year is divided into three seasons. Such a law is not enforced anymore. Moreover, cinemas have to broadcast Egyptian films in the two Islamic feasts, which count only for 7 days in the whole year divided into 2 events.

the industry and be complemented by other effective laws concerning the industry as competition. The discretionary power allowed for cultural ministers should be lessened as it ends up with vague environment for investors. The scarcity of finance led to non transparent accounts which deprived the banks from entering into this business. Hence, a soft budget constraint is likely to cure many of the ills of this industry. Moreover, the need for finance led the producers to sell cheaply the rights of distribution abroad which when combined by weak enforcement of IPR, domestically and abroad, led to loss of profits over time which made new entrants reluctant to enter in this business. Consequently, this led to few investments in the field of laboratories and studios which crowded out producers to use the facilities of other neighboring countries (e.g. Greece). The potential investors in those fields argued that the small size of the market (in terms of the number of films produced) do not allow them to come to Egypt. In other words, the Industry entered in a vicious circle of lack of finance and investments, weak IPR enforcement and absence of transparency. The government should take all such aspects in consideration by providing a clear vision with concrete steps to be undertaken. Necessary measures include ensuring a stable system for finance that does not encourage production of low quality films. This has to be prudently designed to make sure not to repeat the mistake of other countries in providing generous subsidies that ended up in production of low quality films.

An effective competition policy is becoming a necessity for monitoring and disciplining the behavior of firms in this industry, which is experiencing evident moves of mergers and vertical integration. There is great need for designing a sectoral regulation that ensure fair competition and allow as well mergers and acquisitions as a general competition law is not likely to fit the nature of this industry. This might seem to be contradicting with what has been mentioned regarding the high concentration in all of the segments of the Film industry, but this can be explained by emphasizing that the main concern which created the debate on the need for competition policy was initiated when the distribution and cinema ownership were controlled. Those two last stages of the value chain in the Film industry are crucial to the extent that even if the former stages were enjoying fierce competition but the last two stages were controlled by very few firms, the extent of collusion and exploitation by such firms can be high. This is exactly what happened in the Egyptian case where the distribution channels were closed in front of small producers so as well the cinemas that were owned by the same distributors (who produce films as well).

This case study confirms the hypothesis that a soft budget constraint can help in relaxing competition related problems. However, it does not confirm the second hypothesis that trade liberalization can help flourish competition, although the protectionist trade policies adopted by Egypt has been ineffective. The main reason is that the market is highly segmented and that liberalization of trade policy will not affect the competition of domestically produced films. On the contrary the liberalization may in this case kill the few surviving small firms in this field by replacing the few slots and niches they are able to control.

PART V. EMPIRICAL ANALYSES of THE DETERMINANTS of COMPETITIVE MARKET PRESSURES

Introduction:

This part of the study deals with testing empirically the effect of some competition related issues on some important variables as total factor productivity, technical progress, exports' performance, and the missing middle syndrome. We aim also at testing a number of issues, including our two main hypotheses, namely trade liberalization does not affect the status of competition and inter-firm rivalry whereas soft budget constraints helps to enhance competition and inter-firm rivalry. We undertake four regressions, the first tests the effect of competition on price-costs margins. We would expect that higher degree of competition would lead to lower price-cost margins. In the second regression we investigate the impact of competition on total factor productivity. We would expect a priori that competition has positive effects on total factor productivity. The third regression aims at investigating the impact of competition on exports' performance where we expect a positive impact. Finally we intend to study the impact of the determinants of competitive pressures on the distribution of firm size. Of interest here is whether the "missing middle" syndrome of medium sized firms emerges as competitive pressures tighten. Taking into consideration theoretical as well as preceding empirical results, model specifications followed the equations that will be used throughout this part of the paper in the four subsections: i) static effects; ii) growth effects; iii) export performance; and iv) the missing middle.

We utilize time series data for the period 1981 to 1998 which is shortened in some of our regressions due to the unavailability of some variables. However, using pooled data analysis overcomes the econometric problems likely to arise from the shortness of some of time series of some variables. We use firm level data whenever possible accompanied by sectoral data. We depend on national sources as well as the international ones.

The general theme underlying all regressions is that economic liberalization and enhanced competition have positive effects on the firms' characteristics related to productivity, technical progress, exports' performance, etc. This is in line with the orthodox economic point of view on both theoretical basis and empirical grounds where most of the evidence points out towards the positive effect of competition and liberalization on firm-level characteristics.

I. Static Effects:

I.1) Model Specification:

In this section we aim at testing the effect of competition on price-cost margins. We use three main variables to capture the effect of competition, namely number of public firms, number of private firms, and import penetration. It is expected that the number of public firms coefficient has a negative effect whereas private firms and import penetration variables have positive effects. The number of public firms variable captures the hard budget constraint whereas the private firms variable captures the soft budget constraint. The import penetration variable captures the trade liberalization effect. Following what has been discussed in Part II, Part III, and Part IV budget constraint has a determinant effect on competition whereas trade liberalization does not have a deterministic impact. We were not able to have the price-cost margin and hence we used instead technical progress as a proxy for price cost margin. Consequently, the equation that is used to estimate the static effects is:

$$TechProg_i = a_1 * Pub_i + a_2 * Priv_i + a_3 * MPR_i + \varepsilon \quad \dots\dots\dots(1)$$

where:

TechProg_i: **Technical Progress** for industry *i*

Pub: the number of **public firms**

Priv: the number of **private firms**

MPR: **import penetration ratio**

I.2) Data:

Technical progress¹ was estimated according to the following equation where the rate of technical progress a_t with imperfectly competitive markets depends on the estimated

$$\mu * (\Delta q_t - \alpha \Delta l_t - \beta \Delta k_t) - (\mu - 1) * ((\Delta q_t - \Delta k_t)) = a_t$$

¹ The methodology for calculating technical progress is based on the one adopted in another IDRC project on competition. See Sekkat, Khalid and Najib Harabi (2003), *Competition, Competition Policy and Economic Efficiency in the MENA Region, Methodology Report*, IDRC

markup.

The markup is estimated using the following equation For each sector on 3 ISIC digit level the following equation was estimated:

$$\Delta y_t = \gamma \Delta x_t$$

where:

$$\begin{aligned}\Delta y_t &= (\Delta q_t + \Delta p_t) - \alpha_t (\Delta l_t + \Delta w_t) - \beta_t (\Delta k_t + \Delta c_t) \\ \Delta x_t &= (\Delta q_t + \Delta p_t) - (\Delta k_t + \Delta c_t)\end{aligned}$$

and

$$\alpha_t = \frac{W_t L_t}{P_t Q_t} = \text{the share of labor in turnover}$$

$$\beta_t = \frac{C_t K_t}{P_t Q_t} = \text{the share of capital in turnover.}$$

We assume constant returns to scale (CRS) hence $\gamma = (1 - 1/\mu)$.

I.3) Model Estimation:

Originally we had a time series extending from 1983 to 1995, based on which we calculated averages to arrive at technical progress variable. Hence we undertook cross section OLS regression for 28 observations which are the number of industrial sub-sectors at 3-digit level ISIC classification.

Undertaking the regression resulted in the following equation:

$$TechProg = 0.0127 - 0.00028 (Pub) + 0.00003 (Priv) - 0.064151 (MPR)$$

$$(0.6798) (-0.485622) \quad (0.323437) \quad (-1.277482 \quad)$$

Table 1.: Regression Results of Technical Progress on a Number of Variables

Dependent Variable: TechProg

Method: Least Squares

Sample: 1 28

Included observations: 28

Variable	Coefficien	Std. Error	t-Statistic	Prob.
	t			
C	0.012678	0.018650	0.679812	0.5031
Pub	-0.000280	0.000577	-0.485622	0.6316
Priv	3.37E-05	0.000104	0.323437	0.7492
MPR	-0.064151	0.050216	-1.277482	0.2137
R-squared	0.115778	Mean dependent var		-
				0.009286
Adjusted R-squared	0.005250	S.D. dependent var		0.056890
S.E. of regression	0.056741	Akaike info criterion		-
				2.769083
Sum squared resid	0.077268	Schwarz criterion		-
				2.578768
Log likelihood	42.76717	F-statistic		1.047497
Durbin-Watson stat	1.752876	Prob(F-statistic)		0.389631

I.4) Empirical results:

Our former analysis confirmed that trade liberalization has no effect on competition whereas soft budget constrain has positive effect. The soft budget constrains contained in

our analysis is captured by the number of private firms as it is expected that private firms have soft budget constraints whereas public firms have hard budget constraints. Though this is not necessarily true, we assume that this is the case and especially that our analysis in former parts have confirmed this assumption. The regression results show that technical progress is not affected by any of the three independent variables implying that trade openness (as proxied by import penetration ratio) has no effect on the technical progress (which is a proxy for the price cost margin). The number of firms whether private or public (as a proxy for intensive competition) had also no effect on the technical progress. This implies that the intensity of competition in Egypt has not been affected by the increase of the number of private firms (inter-firm rivalry) and has also not been affected by trade openness. This is in line with one of our main hypothesis that trade openness does not affect competition in a positive way, however our empirical analysis failed to capture the positive impact of soft budget constraint on enhancing competition. We tried other model specifications by changing the type of relationship between variables where log linear specification was adopted as well as adding additional variables (business regulations), however the results were not significant. Such result was expected due to the weak correlation existing between the technical progress variable and the explanatory variables as depicted in the table 2.

Table 2.: Correlation Matrix of Technical Progress with different Explanatory Variables

	TechProg	Pub	Priv	MPR
TechProg	1.00			
Pub	-0.15	1.00		
Priv	-0.11	0.98	1.00	
MPR	-0.29	-0.03	-0.12	1.00

II. Growth Effects

II.1) Model Specification:

In this section we intend to investigate the impact of policy changes that affect the degree of competitive pressures directly and have knock-on effects on firm productivity growth. Hence we intend to regress Total Factor Productivity (TFP) on the number of public firms, the number of private firms, and import penetration ratio as shown in equation (2).

$$TFP_{i,t} = a_1 * Pub_{i,t} + a_2 * Priv_{i,t} + a_3 * MPR_{i,t} + \varepsilon_t \quad \dots\dots\dots(2)$$

where:

TFP: **total factor productivity growth** of existing firms

Pub: the number of **public firms**

Priv: the number of **private firms**

MPR: **import penetration ratio**

II.2) Data:

Total factor productivity growth (TFP) is calculated according to the following equation:

$$TFP_{i,t} = g_{i,t}(VA) - [g_{i,t}(E) * s_{i,t}] - [g_{i,t}(K) * (1 - s_{i,t})]$$

such that

$$g_{i,t}(VA) = [(VA_{i,t} - VA_{i,t-1})/VA_{i,t-1}] * 100$$

$$g_{i,t}(E) = [(E_{i,t} - E_{i,t-1})/E_{i,t-1}] * 100$$

$$g_{i,t}(K) = [(K_{i,t} - K_{i,t-1})/K_{i,t-1}] * 100$$

$$s_{i,t} = W_{i,t}/VA_{i,t}$$

where VA is the value added, E is the number of employees and K is the capital.

The pooled data set that is used here consists of 162 observations, which are 18 years (from 1981 to 1998) for each sector among the 9 industrial sub-sectors at the 2 ISIC -digit level. To avoid the problem of regressing TFP growth (which is a ratio) on absolute number of firms we replaced the number of firms with the structure of firms in the industry (dividing the number of firms in each sector by the total number of firms in the whole industry at the relevant year). In fact such transformation of variables did not affect the correlation between the TFP and the explanatory variables as shown in the following tables 3 and 4.

Table 3.: Correlation Matrix before Transformation

	TFP	Pub	Priv	MPR
TFP	1.00			
Pub	0.06	1.00		
Priv	0.04	0.89	1.00	
MPR	-0.08	-0.27	-0.36	1.00

Table 4.: Correlation Matrix after Transformation

	TFP	Pub Structure	Priv Structure	MPR
TFP	1.00			
Pub Structure	0.06	1.00		
Priv Structure	0.05	0.95	1.00	
MPR	-0.08	-0.26	-0.37	1.00

II.3) Model Estimation:

Coefficients in equation (2) were estimated using the Seemingly Unrelated Regression (SUR) method. The result of the estimated equation is as follows in Table 5:

$$TFP = 18.15 + 103.47 (Pub_S) - 91.35 (Priv_S) - 46.50 (MPR)$$

$$(3.05614) \quad (1.717595) \quad (-1.355276) \quad (-2.582515)$$

Table 5.: Regression results of TFP on Different Variables

Dependent Variable: TFP?

Method: Seemingly Unrelated Regression

Sample: 1981 1998

Included observations: 18

Total panel (balanced) observations 162

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	18.15212	5.939558	3.056140	0.0026
PUB_S?	103.4705	60.24151	1.717595	0.0878
PRIV_S?	-91.35447	67.40653	-1.355276	0.1773
MPR?	-46.50236	18.00662	-2.582515	0.0107
Weighted Statistics				
Log likelihood	-884.6254			
Unweighted Statistics				
R-squared	0.008487	Mean dependent var	0.26138	7
Adjusted R-squared	-0.010339	S.D. dependent var	121.820	0
S.E. of regression	122.4481	Sum squared resid	236897	8.
Durbin-Watson stat	2.134020			

II.4) Empirical Results:

Based on the regression results the TFP is affected only by the import penetration ratio (MPR). This result is expected as the negative sign of the coefficient implies that increasing imports are likely to drive out inefficient firms which take time to exist the market. During this time their ability to produce efficiently is likely to decrease due to the increased competition effect arising from increased imports. Since we regress the TFP of both public and private firms and since a large number of firms in the market are public and likely to be inefficient then such result is expected especially that import penetration is focusing on final products and not raw and intermediate inputs that could have positively affected the TFP. This result is in line with the general theme of the study which has shown that competition is not correlated with efficiency. The analysis undertaken in Part II, Part III, and Part IV of the study has shown that some private firms are efficient when compared to public firms and that introducing competition is not necessarily reflected on improving total factor productivity as long as institutional impediments to the efficient performance of the market (in the form of anti-competitive behaviors as abuse of dominant position, cartel, etc.) affect the performance of firms in the market.

It is worth noting that the model specification has been examined by trying different transformations for the variables as well as changing the number of explanatory variables, however the model specification that we have used was the best form of specification.

III. Export performance

III.1) Model Specification:

In order to study the impact of intensified competition (through inter-firm rivalry and increased openness) on export performance we regress the total value of exports on the number of public firms, the number of private firms (as proxies for inter-firm rivalry),

import penetration ratio (as proxy for trade openness), and starting a new business and regulation index². Accordingly, the regression equation is as follows:

$$Exp_{i,t} = a_1 * Pub_{i,t} + a_2 * Priv_{i,t} + a_3 * MPR_{i,t} + a_4 * BR_{i,t} + \varepsilon_t \quad \dots\dots\dots(3)$$

where:

Exp: value of exports

Pub: the number of *public firms*

Priv: the number of *private firms*

MPR: the *import penetration ratio*

BR: *Starting a new business and Regulation index*

III.2) Data:

Pooled data set consists of 162 observations, which are 18 years (from 1981 to 1998) for each sector among the 9 industrial sub-sectors at 2-digit ISIC.

III.3) Model Estimation:

Coefficients in equation (3) were estimated using the SUR method. The final estimated equation is as the follows:

$$Exp = -687536.2^{**} - 410.83^{**} (Pub) + 49.01^{**} (Priv) - 573934.3^{**} (MPR) + 217424.0^{**} (BR)$$

(-4.585713) (-11.93052) (9.360772) (-24.36513) (7.245289)

Table 6.: Regression results of Exports Value on Different variables

Dependent Variable: EXP?

Method: Seemingly Unrelated Regression

² This index is calculated from the World Economic Forum Report (several issues) based on its business regulation index which comprises price controls, administrative conditions and entry of new business, time with government bureaucracy, starting a new business, and irregular payments. The index used was a simple average of those sub index indicators. In general the index is calculated each 10 years and hence we assumed that the index is stable for the period 1985 to 1994 and took another value in 1995 for a period of ten years.

Sample: 1981 1998

Included observations: 18

Total panel (balanced) observations 162

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-149930.16875362	34.43529	-4.585713	0.0000
PUB?	49.00584	5.235235	9.360772	0.0000
MPR?	-23555.565739343	30009.02	-24.36513	0.0000
BR?	217424.0	30009.02	7.245289	0.0000
Weighted Statistics				
Log likelihood	-2044.209			
Unweighted Statistics				
R-squared	0.269326	Mean dependent var	196501.5	
Adjusted R-squared	0.250710	S.D. dependent var	293133.3	
S.E. of regression	253740.6	Sum squared resid	1.01E+13	
Durbin-Watson stat	0.190497			

The above table shows the results of the estimation where Durbin-Watson statistic is very low.

To correct the positive serial correlation, AR(1) and then AR(2) were taken as shown in table 7 and the resulted equation is as follows:

$$Exp = 18342.20 + 117.28 (Pub) + 38.69^{**} (Priv) + 4880.87 (MPR) - 5017.88 (BR)$$

$$(1.250647) (2.076773) (4.13093) (2.375855) (-2.183521)$$

[AR(1)= 0.75, AR(2)= 0.19]

$$(8.974096) (2.23383)$$

Table 7.: Regression results of Exports Value on Different Variables after Correcting for Serial Correlation

Dependent Variable: EXP?

Method: Seemingly Unrelated Regression

Sample: 1981 1998

Included observations: 18

Excluded observations: 2

Total panel (balanced) observations 144

Convergence achieved after 75 iteration(s)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	18342.20	14666.17	1.250647	0.2132
PUB?	117.2777	56.47110	2.076773	0.0397
PRIV?	38.68665	9.365117	4.130930	0.0001
MPR?	4880.870	2054.364	2.375855	0.0189
BR?	-5017.878	2298.067	-2.183521	0.0307
AR(1)	0.749347	0.083501	8.974096	0.0000
AR(2)	0.193699	0.086711	2.233830	0.0271

Weighted Statistics			
Log likelihood	-		
	1631.559		
Unweighted Statistics			
R-squared	0.896988	Mean dependent	203940.
		var	7
Adjusted R-squared	0.892476	S.D. dependent	300573.
		var	2
S.E. of regression	98560.45	Sum squared resid	1.33E+1
			2
Durbin-Watson stat	1.844289		

III.4) Empirical Results:

Our results show that the export value is positively affected by the number of the private and public firms implying that competition and increased inter-firm rivalry have positive impact on exports. Moreover, exports are positively affected by trade openness as proxied by import penetration. This result is of crucial importance since there is a widespread mercantilistic misconception among policy makers where they believe that enhancing exports can go along with restricting imports. Our results prove that contrary to such misconception enhancing exports is positively correlated with increased imports. The negative significant sign of business regulations coefficient implies that better business regulations result in lower level of exports. Although this result is surprising, it might be the case that improving business regulations do not necessarily enhance exports as they are likely to increase the number of firms, especially small and medium in the domestic market, which in general have lower export propensity. However, we were not able to

explain even if this is the case why improved business regulations have not affected the larger firms' exports performance. The only explanation we have is the poor proxy we have used which have focused on issues related to contestability of the market and have not dealt with exports or imports regulations.

IV: The missing middle

IV.1) Model Specification:

We intend to study the impact of the determinants of competitive pressures on the distribution of firm size. Of interest here is whether the “missing middle” syndrome of medium sized firms emerges as competitive pressures tighten. The calculated GINI index is the dependent variable in regression equation; while the independent variables are the number of public firms, the number of private firms, import penetration ratio, and starting a new business and regulation index as the following:

$$GINI_{i,t} = a_1 * Pub_S_{i,t} + a_2 * Priv_S_{i,t} + a_3 * MPR_{i,t} + a_4 * BR_{i,t} + \varepsilon_t \dots\dots\dots(4)$$

where:

GINI: GINI Index

Pub_S: the structure of public firms

Priv_S: the structure of private firms

MPR: import penetration ratio

BR: Starting a new business and Regulation index

IV.2) Data:

GINI index calculated as follows:

$$GINI_{i,t} = [\frac{1}{n} \sum_{i=1}^n (S_i + S_{i-1})] - 1$$

where

$$S_i = \sum_{j=1}^i s_j$$

$$s = \frac{\text{No of Establishments for each size}}{\text{Total No of Establishments}}$$

The value of GINI coefficient according to this equation indicates that whenever it has higher values, the distribution improves implying less concentration. We applied the same method of using the structure of public and private firms instead on numbers as used in the growth regression to avoid regressing numbers on ratios.

Pooled data set consists of 126 observations, which are 14 years (from 1983 to 1998 except 1994 and 1996) for each sector among the 9 industrial sub-sectors at 2-digit ISIC.

IV.3) Model Estimation:

Coefficients in equation (4) were estimated using the SUR method. Estimated equation is as follows:

$$GINI = -0.256 - 1.201 (Pub_S) + 1.47 (Priv_S) + 0.065 (MPR) + -0.013^{**} (BR)$$

(-1.095873) (-9.393163) (10.17687) (1.913397) (-0.287151)

Table 8.:Regression Results of GINI Index on Different Variables

Dependent Variable: GINI?

Method: Seemingly Unrelated Regression

Sample: 1983 1998

Included observations: 14

Excluded observations: 2

Total panel (balanced) observations 126

Variable	Coefficie nt	Std. Error	t-Statistic	Prob.
C	-0.256063	0.233662	-1.095873	0.2753
PUB_S?	-1.201158	0.127876	-9.393163	0.0000
PRIV_S?	1.474591	0.144896	10.17687	0.0000
MPR?	0.064874	0.033905	1.913397	0.0581

BR?	-	0.046877	-0.287151	0.7745
		0.013461		
<hr/>				
Weighted				
Statistics				
<hr/>				
Log likelihood	115.0526			
<hr/>				
Unweighted				
Statistics				
<hr/>				
R-squared	0.111292	Mean dependent	-	
		var	0.25588	
				3
Adjusted R-	0.081913	S.D. dependent	0.20147	
squared		var		8
S.E. of regression	0.193050	Sum squared resid	4.50944	
				5
Durbin-Watson	0.988948			
stat				
<hr/>				

The Durbin-Watson statistic is very low which indicates that there is positive serial correlation. To account for positive serial correlation, AR(1) was used as shown in table 9 and the resulted equation is as follows:

$$\begin{aligned}
 GINI = & - 2.2047 - 0.776 (Pub_S) + 0.847 (Priv_S) - 0.031 (MPR) + 0.339 (BR) \\
 & (-7105.99) (-1518.712) \quad (3339.141) \quad (-1296.674) \quad (8280.713) \\
 & [AR(1)= 0.85] \\
 & (9485.409)
 \end{aligned}$$

Table 9.: Regression Results of GINI Index after Correcting for Serial Correlation
Dependent Variable: GINI?

Method: Seemingly Unrelated Regression

Sample: 1983 1998

Included observations: 13

Excluded observations: 5

Total panel (balanced) observations 99

Convergence achieved after 48 iteration(s)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-2.204744	0.000310	-7105.990	0.0000
PUB_S?	-0.775570	0.000511	-1518.712	0.0000
PRIV_S?	0.847007	0.000254	3339.141	0.0000
MPR?	0.031176	2.40E-05	-1296.674	0.0000
BR?	0.338596	4.09E-05	8280.713	0.0000
AR(1)	0.850968	8.97E-05	9485.409	0.0000
Weighted Statistics				
Log likelihood	198.5405			
Unweighted Statistics				
R-squared	0.282933	Mean dependent var	-	
			0.27286	6
Adjusted R-squared	0.244381	S.D. dependent var	0.20702	
			6	6
S.E. of regression	0.179960	Sum squared resid	3.01186	
			3	

Durbin-Watson 2.186253

stat

IV.4) Empirical Results:

The estimated results show that the GINI index improves when public firms exit the market. Despite the fact this implies that when the structure of public firms worsens the GINI index improves, we believe that this is a result of the privatization process where the government has started with the less problematic firms employing less labor and having less capital and hence they were the ones which existed the market. The remaining ones are the large problematic firms. However, the exist of public firms even though they are small and medium have resulted in an overall positive impact on the GINI index. The case is different in the private sector where the better the structure of this sector the better distribution and less concentration we are likely to have in the market. It is worth noting that our initial concern was testing the impact of budget constraints as proxied by the number of private and public firms, however to ensure right specification we had to replace number of firms (private and public) by the structure of firms. Such replacement to achieve meaningful statistical results might have blurred the economic rationale behind the structure of firms acting as proxies of budget constraints. Import penetration is negative and expected as the increased imports are likely to affect the small and medium sized firms more harshly as they cannot compete and hence they exist the market, which leaves the market with only the large firms hat are able to face the competition of foreign products. The business regulations coefficient had a positive sign implying that improved business regulations have positive impact on the distribution of firms. This result is expected especially since the components of the business regulation index reflect merely the contestability of the market which when improved is likely to result in a better distribution of firms in the domestic market.

Conclusion:

The empirical analysis in this part faced a number of problems where the lack of robust theoretical underpinnings for the equations has affected the quality of interpreting the

results. Moreover, the lack of good quality of data and the usage of different data sources could have a negative impact on the consistency. Finally, the usage of several proxies has affected the accuracy of results obtained. Despite such limitations, the empirical part pointed out that the relationship between competition and enhanced inter-firm rivalry on the one hand and other economic variables as productivity, exports, and distribution is not clear and that increasing private sector participation is not necessarily reflected by any means into better performance of firms in the economy.

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Appendix A: List of privatized firms with the method of privatization (1992-2002)

	Company	Stake Sold			Sale Value <i>LE</i> <i>million</i>	Date of Sale	
		All	ESAs	IPO			Liquidation
Companies Privatized in 1993							
1	Upper Egypt Agriculture Co.				100%	n.a.	Dec-93
2	Middle Delat Agriculture Co.				100%	n.a.	Dec-93
3	West Nubariya Agriculture Co.				100%	n.a.	Dec-93
4	El Nahda Agriculture Co.				100%	n.a.	Dec-93
5	Nile for Exporting Agriculture Goods				100%	n.a.	Dec-93
6	Cairo Fabricated Houses				100%	n.a.	Dec-93
Companies Privatized in 1994							
7	South Tahrir Agricultural Co.				100%	n.a.	Feb-94
8	Coca Cola	90.0%	10.0%			286	Apr-94
9	Pepsi Cola	90.0%	10.0%			131.1	Apr-94
10	Farascor Co.				100%	n.a.	May-24
11	Consulting Office of Irrigation		5.0%	95.00%		1.3	Jun-94
12	Wady Kom Umbo for Land Reclamation		95.0%	4.73%		70.123	Sep-94
13	El Nasr Boilers	10.00%				15.6	Sep-94
14	General Company for Land Reclamation		95.00%	4.86%		60.054	Nov-94
15	Egyptian Realstate Co.		95.00%	4.70%		45.7	Nov-94
16	Egyptian Dredging Co.		95.00%	4.17%		18.54	Dec-94
17	Irrigation for General Works		95.00%	4.76%		23.43	Nov-94
18	Arabian Office for Designs		40.00%	5.00%		3.963	Jul-94
19	Upper Egypt Dredging Co.		95.00%	4.80%		8.05	Dec-94
Companies Privatized in 1995							
20	Misr Chemicals			51.10%		65.4	Jan-95
21	Regwa		95.0%	4.77%		28.28	Jan-95
22	Arab Co. for Land Reclamation		95.0%	4.77%		61.224	Jan-95
23	El Bihaira Co.		95.0%	3.20%		49	Feb-95
24	Cairo General Foundation Co.				100.00%	n.a.	Feb-95
25	General Co. for Sanitary Construction Work				100.00%	n.a.	Feb-95
26	Extracted Oils		8.5%	43.00%		85	Mar-95
27	Nile Pharmaceuticals		10.0%	23.30%		54.64	May-95
28	North Cairo Flour Mills		8.3%	33.42%		135.9	May-95

	Company	Stake Sold			Liquidation	Sale Value <i>LE million</i>	Date of Sale
		All	ESAs	IPO			
29	Eastern Tobacco Co.		5.0%	28.70%		549	Jun-95
30	Misr El Gadida Housing & Development		9.5%	17.61%		134.72	Jul-95
31	Alexandria for Pharmaceuticals			30.00%	10.0%	51.7	Dec-95
Companies Privatized in 1996							
32	Almaco	90.0%				114.84	Feb-96
33	High Dam Civil Works				100.00%	n.a.	Mar-96
34	Middle Egypt Flour Mills		10.0%	30.07%		32.3	Apr-96
35	Financial & Industrial Co.		10.0%	64.70%		70	May-96
36	Madinet Nasr for Housing & constructions		10.0%	64.94%		189.63	May-96
37	Abu Ker Fertilizer			2.80%		20	May-96
38	United for Housing and Constructions		7.0%	3.11%		5	May-96
39	South Cairo Flour Mills		10.0%	30.00%		29.8	May-96
40	Starch & Glucose		10.0%	51.03%		67.6	Jun-96
41	West & Middle Delta Flour Mills		10.0%	51.00%		177.1	Jun-96
42	Kafr El Zayet Insecticides		5.0%	70.00%		51.1	Aug-96
43	Misr Oil & Soap		10.0%	50.92%		73.2	Aug-96
44	Nile Matches & Prefabricated Houses		8.9%	55.67%		33.9	Aug-96
45	Arabia Pharmaceuticals		10.0%	30.00%		18.2	Sep-96
46	East Delta Flour Mills		10.0%	51.00%		109.9	Sep-96
47	Memphis Pharmaceuticals		10.0%	30.00%		47.5	Sep-96
48	Upper Egypt Flour Mills		10.0%	51.00%		165.3	Sep-96
49	TeleMisr		10.0%	90.00%		59.1	Sep-96
50	Al Nasr Utilities	100.0%				40	Oct-96
51	Alexandria Pharmaceuticals		10.0%	30.00%		51.7	Oct-96
52	Silos & Storage		10.0%	30.00%		148.2	Oct-96
53	Al Ahram Beverage	90.0%	10.0%			298.1	Nov-96
54	Cairo Pharmaceuticals		10.0%	30.00%		61.9	Nov-96
55	Helwan Portland Cement		5.0%	47.20%		541	Nov-96
56	Ameria Cement			52.00%		461	Dec-96
57	Arabia Cotton Ginning		10.0%	90.00%		87.1	Dec-96
58	Misr Free Shops		10.0%	87.40%		132.7	Dec-96
59	UniArab Spinning & Weaving		6.9%	60.40%		225.7	Dec-96
Companies Privatized in 1997							
60	Al Nasr for Dehydrating Agricultural Products		10.0%	90.00%		23.6	Aug-96
61	El Mahmodia Constructing Co.		10.0%	69.75%		54.4	Jan-97
62	General Batteries Co.				100.00%	n.a.	Jan-97
63	Al Nile Cotton Ginning		10.0%	90.00%		294.8	Jan-97
64	Misr Aluminum			8.00%		221	Feb-97
65	Cairo Housing		10.0%	96.38%		117.8	Mar-97
66	Development & Engineering Consultant Co.		10.2%	88.22%		104.4	Apr-97
67	Nobarria Mechanical & Agricultural Engineering		20.0%	79.38%		26.95	May-97

	Company	Stake Sold			Liquidation	Sale Value <i>LE</i> <i>million</i>	Date of Sale
		All	ESAs	IPO			
68	Upper Egypt (El Said for Constructing)			100.00%		25	May-97
69	Chronic	61.0%	10.0%			102.81	Jun-97
70	Middle East Co. for Paper		10.0%	75.00%		54.8	Jun-97
71	Kabo			63.00%		196.9	Jun-97
72	Bolivara				n.a.	32.8	Jun-97
73	El Giza Contracting Co.		10.0%	70.00%		33.17	Aug-97
74	Canaltex				100.00%	n.a.	Aug-97
75	Electro-Cables		5.0%	95.00%		320.8	Oct-97
76	Industrial & Engineering Projects Co.		10.0%	79.90%		299.1	Oct-97
77	Paints & Chemicals		8.0%	53.75%		8.358	Oct-97
78	El Shams Housing		5.0%	50.46%		30.8	Nov-97
79	Prefabricated Houses Co.				100.00%	n.a.	Nov-97
80	El Nile for Goods Transport Co.		95.0%			24.1	Nov-97
81	El Nile for Heavy Transport Co.		95.0%			27.2	Nov-97
82	El Nile for In-Land Transport Co.		95.0%			27.3	Nov-97
83	El Nasr Iron Casting	100.0%				47.5	Dec-97
84	Ideal	90.0%	10.0%			311.1	Dec-97
85	El Nile for Direct Transport Co.		95.0%			n.a.	Dec-97
86	El Nile for Transport Operation Co.		95.0%			n.a.	Dec-97
87	Alexandria Spinning & Weaving		5.4%	94.60%		82.4	Dec-97
Companies Privatized in 1998							
88	Demiatta Rice Mills		90.0%	0.10%		48.56	Jan-98
89	Bisco Misr		9.3%	45.69%		74.7	Jan-98
90	Extracted Oils		8.5%	42.50%		85	Jan-98
91	Kaha	90.0%	10.0%			154.2	Feb-98
92	Arabia & United Stevedoring		22.0%	29.50%		16.6	May-98
93	El Nasr Civil Work		10.0%	70.60%		104.6	May-98
94	Mokhtar Ibrahim Contracting		10.0%	3.45%		75.56	Jun-98
95	Alexandria Flour Mills		10.0%	30.00%		125.1	Jun-98
96	El sharquia Rice Mills		90.0%	0.10%		38.69	Jul-98
97	Cairo Manufacturing Silk Textile				100.00%	n.a.	Jul-98
98	Graphite				100.00%	n.a.	Sep-98
99	Deqahlia Rice Mills		90.0%	0.10%		36.73	Sep-98
100	Elbehira Rice Mills		90.0%	0.10%		21.79	Sep-98
101	Rashid Rice Mills		90.0%	0.10%		11.5	Sep-98
102	General Metallurgical Wealth Co.				100.00%	n.a.	Sep-98
103	Alexandria Rice Mills		90.0%	0.10%		26.78	Oct-98
104	Egyptian Company for Irrigation		30.0%	60.00%		5.178	Oct-98
105	Marriut Agricultural Co.				100.00%	n.a.	Oct-98
106	Egyptian Marine Supply & Contracting		51.0%			16.4	Oct-98
107	Amoun Shipping Agencies		44.0%	44.00%		25.9	Nov-98
108	Memphis Shipping Agencies		44.0%	44.00%		43.3	Nov-98
109	Tibia & Abou Simbel Shipping Agencies		44.0%	44.00%		26	Nov-98

	Company	Stake Sold			Liquidation	Sale Value <i>LE</i> <i>million</i>	Date of Sale
		All	ESAs	IPO			
110	Mary Trance		51.0%	44.00%		42.7	Nov-98
111	El Wady for Exporting Agricultural Goods		27.0%			121.99	Nov-98
112	Egyptian Leather Manufacturing Co.	68.0%			100.00%	n.a.	Nov-98
113	Industrial Gases	90.0%	10.0%			60	Dec-98
114	Arab Engineering Consulting Co.			40.00%		1	Dec-98
115	Industrial Fitting & Services				100.00%		Jul-98
Companies Privatized in 1999							
116	Egyptian Co. for Seed Production – Nobaseed					103	Feb-99
117	Janaklis Beverages	100.0%				32	Feb-99
118	Misr Co. for Theatre & Movies Distribution	100.0%				55	Feb-99
119	Kafr El Sheikh Rice Mills	100.0%	90.0%	10.00%		12.99	Mar-99
120	San El Hagr Agricultural Co.		95.0%			18	Mar-99
121	Suez Stevedoring		61.9%	0.19%		21.84	Mar-99
122	Beni Suef Cement	95.0%	5.0%			527	Jul-99
123	Delta Sand Bricks Co.	90.0%	10.0%			62	Jul-99
124	Arabia for Foreign Trade	90.0%	10.0%			14.9	Aug-99
125	General Agricultural Co.				100.00%	n.a.	Sep-99
126	General Co. For Agricultural Products & Services				100.00%	n.a.	Sep-99
127	Egyptian Co. for Dairy & Meat Production				100.00%	n.a.	Sep-99
128	North El Tahrir Agricultural				100.00%	n.a.	Sep-99
129	GIMCO				100.00%	n.a.	Oct-99
130	Assuit Cement	77.0%	10.0%			1196.6	Nov-99
131	Alexandria Cement	90.0%	10.0%			670	Dec-99
132	Telephone Equipment's Co.	80.0%	10.0%			100.3	Dec-99
133	Misr Fab					n.a.	n.a.
134	Transportation Works		95.0%	0.13%		11.795	Jul-99
135	Direct Transportation		95.0%	0.08%		17.71	Jul-99
136	Soranaga				100.00%	n.a.	Dec-99
137	Telemisr		10.0%	90.00%		59.1	Mar-99
138	Sand Bricks Co.				100.00%	n.a.	Feb-99
Companies Privatized in 2000							
139	Plastic & Electricity Industries	90.0%	10.0%			93.6	Jan-00
140	Ramsis Agricultural	90.0%				161.15	Jan-00
141	Tura Cement		5.0%	76.40%		1226	Jan-00
142	Amria Cement	29.0%	10.0%	61.00%		1295.2	Mar-00
143	General Foundations Co.				100.00%	n.a.	May-00
144	Egyptian Co. for Food Bisco Misr (45%)		8.0%			14	Jun-00
145	Assuit Cement	13.0%				183	Jun-00
146	United Co. for Poultry Production				100.00%	n.a.	Jun-00
147	Cairo Oil & Soap		61.0%			33	Jul-00

	Company	Stake Sold			Liquidation	Sale Value <i>LE million</i>	Date of Sale
		All	ESAs	IPO			
148	Misr for Engineering & Tools (MICAR)	90.0%	10.0%			25	Jul-00
149	Alex for Chocolate & Confectionary	10.0%				27.48	n.a.
150	Egyptian Refractories				100.00%	n.a.	Feb-00
Companies Privatized in 2001							
151	Engineering Design & Irrigation Projects Consulting Co.		95.0%	4.00%		1.22	Jun-01
152	Shaher & Romny				100.00%		Jan-01
153	Segal				100.00%		Feb-01
154	Egyptian Gypsom Co.	90.0%				83.299	Feb-01
155	Alexandria for Refregeration.	90.0%				33	Jul-01
156	El-Gharbiya Rice Miles'		90.0%			51.19	Jul-01
157	Arab company for furniture and carpets	100.0%				50.1	Jul-01
158	Misr Export and Import Co.		100.0%			17.9	Jul-01
Companies Privatized during January-March 2002							
159	United for Trade Company		98.0%			5	Feb-02
160	Arab for Trade Company		98.0%			6	Feb
161	Abou Zaabal Fertilizers	100.0%				182	Feb
162	Shobra Factroy "Armnian"					8.5	Feb

Source: *Quarterly Economic Digest, volume 8 no. 2, March-June 2002*, Ministry of Foreign Trade

Appendix B: Total Public and Private Industrial Production Distributed by Sector*

	94/95		95/96		96/97		97/98		98/99		<i>in L.E million</i>	
	Product- ion	Establish- -ments	Product- ion	Establish- -ments	Product- ion	Establish- -ments	Product- ion	Establish- -ments	Product- ion	Establish- -ments	Product- ion	Establish- -ments
Mining & Quarries												
Public Sector	300	6	277	6	325	6	344	6	360	6	320	5
Private Sector*	0	0	0	0	0	0	0	0	0	0	0	0
Total	300	6	277	6	325	6	344	6	360	6	320	5
Food, Beverages & Tobacco												
Public Sector	11,584	37	12,119	37	12,518	37	12,802	33	12,259	33	11,568	30
Private Sector*	3,900	568	4,832	568	5,500	568	6,338	696	6,700	717	8866	773
Total	15,484	605	16,951	605	18,018	605	19,140	729	18,959	750	20,434	803
Spinning & Weaving												
Public Sector	5,961	35	5,434	35	4,507	35	4,009	31	3,184	29	2,542	28
Private Sector*	2,448	945	3,152	1,014	2,714	1,058	5,322	1,304	5,207	1,226	7,553	1,198
Total	8,409	980	8,586	1,049	7,221	1,093	9,331	1,335	8,391	1,255	10,095	1,226
Wood Products												
Public Sector	119	10	124	9	96	9	93	7	61	7	48	6
Private Sector*	278	358	292	359	317	387	382	254	669	257	493	261
Total	397	368	416	368	413	396	475	261	730	264	541	267
Paper & Chemical Products												
Public Sector	4,369	34	4,720	34	4,299	34	3,103	30	2,473	27	2,137	27
Private Sector*	3,182	1,050	3,688	1,060	3,986	1,067	6,984	863	8,314	928	7,704	1,013
Total	7,551	1,084	8,408	1,094	8,285	1,101	10,087	893	10,787	955	9,841	1,040
Pharmaceuticals, Drugs & Medical Supplies												
Public Sector	987	8	1,119	8	1,221	8	1,221	8	1,288	8	1,269	8
Private Sector*	1,310	22	1,610	22	1,950	22	2,204	32	2,136	35	2,988	38
Total	2,297	30	2,729	30	3,171	30	3,425	40	3,424	43	4,257	46
Refractories												
Public Sector	2,571	18	2,881	18	3,203	18	3,678	16	3,628	15	1,603	10
Private Sector*	1,656	250	1,544	250	1,889	250	2,520	704	2,922	868	4,644	875
Total	4,227	268	4,425	268	5,092	268	6,198	720	6,550	883	6,247	885
Metal Products												
Public Sector	3,656	12	3,706	12	3,327	11	3,418	11	2,877	11	2,765	11
Private Sector*	1,878	127	2,121	127	1,724	127	3,278	109	4,284	129	6,006	160
Total	5,534	139	5,827	139	5,051	138	6,696	120	7,161	140	8,771	171
Engineering Industries												
Public Sector	2,374	25	2,553	25	809	25	2,428	24	1,403	24	1,224	21
Private Sector*	3,025	457	4,314	457	4,168	457	5,467	599	6,056	721	6,670	719

	94/95		95/96		96/97		97/98		98/99		<i>in L.E million</i>	
	94/95		95/96		96/97		97/98		98/99		99/00	
	Product- ion	Establish- -ments	Product- ion	Establish- -ments	Product- ion	Establish- -ments	Product- ion	Establish- -ments	Product- ion	Establish- -ments	Product- ion	Establish- -ments
Total	5,399	482	6,867	482	4,977	482	7,895	623	7,459	745	7,894	740
Electrical Industries												
Public Sector	1,184	10	1,305	10	298	9	904	8	500	7	445	6
Private Sector*	1,444	100	1,738	100	2,032	100	2,257	168	3,282	129	2,868	133
Total	2,628	110	3,043	110	2,330	109	3,161	176	3,782	136	3,313	139
Grand Total												
Public Sector	33,105	195	34,238	194	30,603	192	32,000	174	28,033	167	23,921	152
Private Sector	19,121	3,877	23,291	3,957	24,280	4,036	34,752	4,729	39,570	5,010	47,792	5,170
Total	52,226	4,072	57,529	4,151	54,883	4,228	66,752	4,903	67,603	5,177	71,713	5,322
Excludes government workshops, military factories, ginning and grinding, bakery, tea packing, press and publishing ,* Private sector from 10 workers and more.												
* Source: <i>The Statistical Yearbook (1994-2001)</i> , CAPMAS.												
** Whole Sale Prices												

Appendix C: Differences Between Public Sector and Public Business

Sector	Public Sector		Public Business Sector	
Structure	Public Sector Authorities	Public Sector Companies	Holding Companies	Subsidiary Companies
Law	Law no. 97/1983 which is amended by law no. 109/87	Public sector companies are subject to: <ul style="list-style-type: none"> – Law no. 97/1983 which is amended by law no. 109/87 – law no. 159/1981 where no specific provision of law no. 97/1983 is provided 	Holding companies are subject to: <ul style="list-style-type: none"> – Law no. 203/1991, and – law no. 159/1981 where no specific provision of law no. 203/1991 is provided 	Subsidiary companies are subject to: <ul style="list-style-type: none"> – Law no. 203/1991, and – law no. 159/1981 where no specific provision of law 203/1991 is provided
Legal Status	an independent entity under the General Law	Joint stock company	Holding companies take the form of joint stock companies and are considered as one of special law persons	Joint stock company
Establishment	Public sector authorities are established according to a presidential decree	based on a proposal submitted by a public sector authority and approved by the Prime Minister, public sector company is established according to a ministerial decree issued by the competent Minister	Holding companies: <ul style="list-style-type: none"> – replace public sector authorities which were under law no. 97/1983 according to a presidential decree after the approval of the ministers council – are established by issuing the Prime Minister’s decree based on a proposal submitted by the competent Minister. 	Subsidiary companies: <ul style="list-style-type: none"> – replace affiliated companies which were under law no. 97/1983 according to a presidential decree after the approval of the ministers council – are established by issuing a ministerial decree based on a proposal submitted by the board of directors of holding company.
Supervision	Competent Minister specified in its establishment presidential decree	Public sector authorities	Competent Minister specified by a presidential decree	Holding companies
Main Function	<ul style="list-style-type: none"> – participating in the development of the national economy – achieving development plan targets in conformity with state policies and plans. 	Public sector companies are considered as a unit charged with executing an economic project in conformity with state policies and the social and economic development plan	<ul style="list-style-type: none"> – investing its funds through subsidiary companies or implementing its investments itself when be needed – contributing to the development of national economy in its activities through subsidiary companies within the framework of the state policies 	
Capital	– the capital of affiliated public	– capital is divided into nominal		– capital is divided into nominal

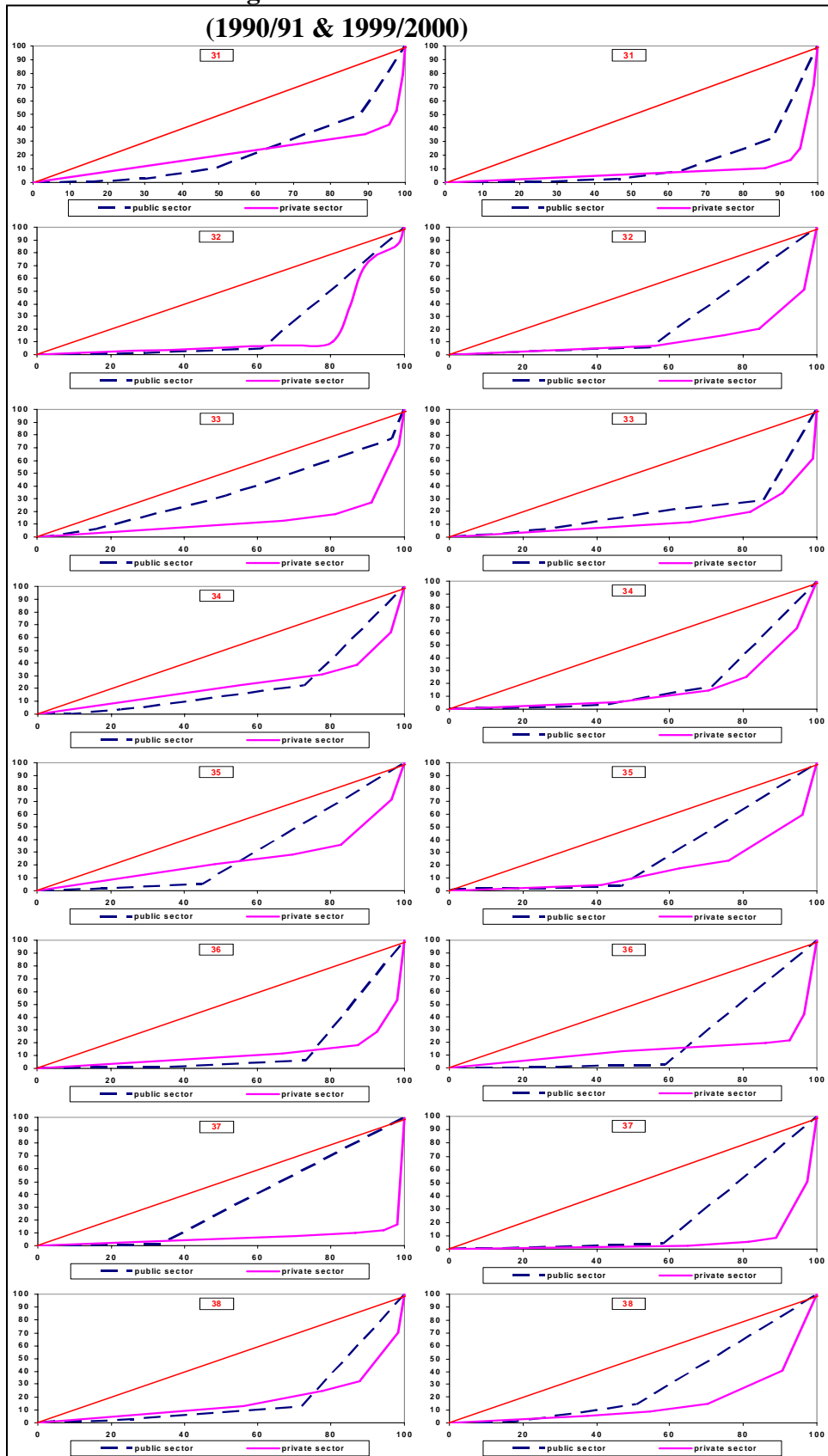
Sector	Public Sector		Public Business Sector	
Structure	Public Sector Authorities	Public Sector Companies	Holding Companies	Subsidiary Companies
	<p>sector companies which are fully state-owned.</p> <ul style="list-style-type: none"> - the share of the state in the capital of affiliated companies where its capital is owned by the state as well as other public and private entities and individuals - funds allocated for it by the state 	<p>shares of equal value</p> <ul style="list-style-type: none"> - companies are not allowed to issue shares give their holders any kind of special advantages. - the statute of companies specify the nominal value of shares. - the value of a share must not be less than 5 LE and more than 100 LE. - shares owned by public sector banks must be traded among these public entities and in conformity with the executive regulation - shares owned by private entities and individuals can be traded in the stock market - based on a proposal submitted by the competent Minister and approved by board of directors, public sector companies can issue nominal bonds and after obtaining a permit from the Prime Minister 		<p>shares of equal value</p> <ul style="list-style-type: none"> - the statute of companies specify the nominal value of shares. - the value of a share must not be less than 5 LE and more than 100 LE. - shares are tradable in accordance with the provisions of general regulation of the stock markets promulgated by law no. 161/1957 and companies law no. 159/1981 - incorporation shares, in-kind shares and founders' shares can be traded as of the date of company's registration
Management	<p>Board of directors appointed upon a presidential decree and proposed by the competent minister for four years</p>	<p>Board of directors consists of:</p> <ul style="list-style-type: none"> - a chairman nominated by the competent Minister and appointed by a decree issued by the Prime Minister - members appointed by the competent minister represent <ul style="list-style-type: none"> a) 50% of total members if the company is fully owned by public entities; or b) the same proportion of public entities share in the capital - members representing private individuals proportionate to 	<p>Board of directors is formed by a resolution of the general assembly upon a proposal by the company chairman for three years which are renewable and consists of an odd number of members not less than seven and not more than seven as follows:</p> <ul style="list-style-type: none"> - a full-time chairman - a number of members not less than five selected from persons having experience in economic, financial, technical, legal and business 	<ul style="list-style-type: none"> - a company whose capital is fully owned by a single or multiple holding companies, public entities or public sector banks is managed by a board of directors appointed for a renewable term of three years. This board consists of an odd number of directors not less than five and not more than nine including the board chairman as follows: a) a part-time chairman appointed by general assembly, b) a pat-

Sector	Public Sector		Public Business Sector	
Structure	Public Sector Authorities	Public Sector Companies	Holding Companies	Subsidiary Companies
		<p>their share in the capital</p> <ul style="list-style-type: none"> – other members are elected among employees according to law no 73/1973 	<p>administration fields</p> <ul style="list-style-type: none"> – a representative of the Egyptian workers general federation of syndicate to be selected by the federation's board of directors 	<p>time experienced members appointed by the holding company's board of directors,</p> <p>c) a number of members equal to experienced members to be elected from employees according to law regulating this matter</p> <ul style="list-style-type: none"> – chairman of the committee of syndicate who is not counted as a voting member
Responsibilities	<ul style="list-style-type: none"> – establishing joint stock companies either individually or in participation with public or private entities or with individuals – owning company shares either through purchasing or participating in its capital – approving general goals and plans of each affiliated company and group of companies in conformity with state policies within the framework of the social and economic development plan – conducting technical and economic studies related to the general activities of affiliated companies – following up the activities of affiliated companies specially production, productivity, sales, exports, investment, labor, profitability and wages – coordinating among affiliated companies and with other public companies authorities in order to achieve best production and benefit from 	<p>The company board of directors enjoys all the power required to perform the tasks needed for achieving the purposes the company established for especially:</p> <ul style="list-style-type: none"> – setting executive plans to ensure the development of production, control the quality, make best utilization of the available sources, raise the efficiency of production and maintain company goals – rationalizing the company financial policy to procuring sources required to finance current and investment operations – executing investment operations charged to the company and making follow-up of execution – specifying expenditure items in accordance with the plan of action and the company targets 	<ul style="list-style-type: none"> – establishing joint stock companies alone or in participation with public or private judicial entities or individuals – purchasing or selling the shares of joint stock companies or participate in their companies – forming and managing a portfolio of the company including shares, stocks, bonds and any other instruments or financial assets – laying out general policies and specifying means required to accomplish these policies – undertaking all actions required to rectify financial structure and progress of unsuccessful subsidiary companies and enhancing the profitability of these subsidiaries and cutting down their costs 	

Sector	Public Sector		Public Business Sector	
Structure	Public Sector Authorities	Public Sector Companies	Holding Companies	Subsidiary Companies
	mass production – lending affiliated companies or guaranteeing the loans of affiliated companies – proposing merger of affiliated company into another company or dividing it or joining it to another authority – proposing transfer of unused investment from affiliated company to another one supervised by the same authority			
Ownership	funds of authorities owned by the state unless otherwise declared in its establishment decree	A public sector company is any company either: a) owned by a public entity alone or in participation with other public entities and public sector banks or companies, or b) one or more of public entities participate with private individuals and public share of capital, including the share of public banks and companies, must be not less than 51% of total capital.	The capital of holding companies is fully owned by the state or public judicial persons	Holding companies must own at least 51% its capital
Employment	Subject to the provisions of public sector employees law no. 48/1978	Subject to the provisions of public sector employees law no. 48/1978	Regarding wages, each company sets its own rules approved by the prime minister; otherwise, employees are subject to law no. 48/1978	Regarding wages, each company sets its own rules approved by the prime minister; otherwise, employees are subject to law no. 48/1978

Source: Compiled by Author

Appendix D: Distribution of Number of Establishments versus Production in Manufacturing Sector



Source: Author's calculations based on CAPMAS *Industrial Production Statistics Bulletin*, various issues.

Appendix E: Mergers and Acquisitions by Sector (1996-2003)

Mergers		Value	Date
Sector		<i>in LE millions</i>	
ICT			
The Egyptian Co. for satellites	MenaNet	50.00	Aug 2000
Link	Intouch		Jun 2000
Banking, investment and finance			
American ACI	Commercial International Investment Company • CIIC	50.00	Aug 2000
EFG	Hermes	NA	Jul 1996
Saudi Cairo Bank	United Saudi Commercial Bank	5772.96	Aug 1997
Commercial International Investment Company	Robert Fleming	300.00	Aug 2000
Services			
Egyptian Hotels	Egoth	NA	Mar 2000
Metals, machinery ..etc			
Egyptian Electrical Cables	Egyptian company for Distributing Electric Cable	450.75	Mar 2000
Electronics			
Protech	Triangle Group & Middle East Application	130.70	Dec 1998
Textiles and Clothing			
El Nasr for Clothes (Kabo)	The National Company for Spinned Textile and Clothes	273.00	Jan 2000
Alexandria Spinning and Weaving	The Egyptian Company for preparing Dying, Trading Textile Alexandria Spinning and Weaving	478.00	Dec 1999
Food and Beverages			
Chipsy Food Industries	Crunchy	142.00	May 1999
Other			
Egyptian Financial and Industrial company	Arab Company for Granulated Fertilizers	NA	Feb 2000

Source: Cairo & Alexandria Stock Exchanges, Monthly Bulletin, May 2003

Acquisitions			
Acquirer	Acquired	Value <i>in LE millions</i>	Date
Chemicals and petrochemicals			
Agwaa Holdings	Misr Gulf Oil Processing	55.90	Apr 01
Esso Standard	Mobil International Petroleum Corporation	1889.00	Oct 00
Savola Sime Egypt	Misr Gulf Oil Processing	100.00	May 00
Shell	National Gas Company (Natgas)	113.00	Feb 01
Anchor Investor	Industrial Gases Company	60.00	Dec 99
Poly-Serv Company	Abou Zaabal Fertilizers	307.00	Apr 99
Albert Pesticides	Kafr El Zayat Pesticides	7.83	May 03
Food & Beverage			
Kraft Foods International Service Inc.	Family Nutrition	446.28	Apr 03
Heineken International	Al Ahram Beverages	3.16	Jan 03
Middle East Food & Trade	El Rasheedy El Mezan Confectionaries	91.92	Jan 03
Unilever Overseas Holding Limited	El Rasheedy El Mezan Confectionaries	90.43	Aug 02
Oaf Group	Kaha Company for Preserved Food	144.00	Jan 01
Al Ahram Beverages Company (ABC)	El Gouna Beverages Group	255.00	Mar 01
Hero	Egyptian French Agricultural Industries (Vitrac)	47.04	Oct 02
Pepsico Finance Luxembourg	Tasty Foods Misr	49.40	Jan 01
BestFoods	El Rasheedy El Mezan	66.00	Apr 00
Lucifer Company	Egyptian Company for Yeast	21.20	Jan 00
BiscoMisr	Alexandria Chocolate and Sweets (Corona)	1424.90	Jan 00
Edita for Food Industries	International Food (Hostess)	32.60	May 03
Banking, investment and finance			
General Investment Authority-Kuwaiti Government^	Arab African International Bank	49.36	Apr 03
Berjaya Group Berhad - Malaysia	Mohandes Insurance	38.01	Aug 97
Barclays Bank	Cairo Barclays Bank	74.69	Mar 99
EIRaghyElMasrafia	Mohandes Insurance	7.10	May 99
ABN Amro Bank	Delta EAB	7.40	May 99
Commercial International Investment Company	Arab African International Bank	23.50	Apr 00
Flemings-CIIC	El Ahli Fund Management	2.40	Nov 99
El Rajhi Enterprises	El Kinanah Brokerage	0.75	Nov 99
Arab Banking Corporation	Egypt Arab African Bank	1197.00	Jan 00
Misr Insurance Company	Novopark Hotel - Four Season	51.00	Jul 99
Commercial International Investment Co (CIIC)	Gezira Sheraton	65.00	Jan 00
Arab Banking Corporation	Egypt Arab African Bank	98.00	Oct 99
Egyptian Financial Group- Hermes Holding Company	Hermes Investment Company	1.04	Feb 00
Credit Commercial de France	Credit International d'Egypte	40.00	Mar 00

Star Development and Investment	Aman Brokerage	NA	Jan 00
Unicap Group	Pharoniya Brokerage	0.75	May 99
Arab Tourism Development and Real Estate Investment	Dar El Rabwa Housing and Development	44.70	Apr 99

J. Sainsbury PLC	Egyptian Distribution Group (Edge)	225.00	Oct 99
Anchor Investor	Egyptian Shipping Transport	20.20	Mar 99
AccorSA	Guezira Hotels & Tourism	39.15	Nov 02
Construction			
African International Development Bank	Alexandria Iron and Steel	100.00	Feb 99
Toublat (Arabian International Construction)	Montasser Ready Mix Concrete	38.60	Dec 98
El Ezz Steel Rebars	Alexandria Iron and Steel	638.00	Dec 99
International Company for Modern Construction	Sail Radio Holland N.V	960.00	Apr 00
Pharmaceuticals			
United National Glass Company	Advanced Pharmaceuticals Company	28.90	Nov 99
Pharco Pharmaceuticals	Amreyah Pharmaceuticals Industries	252.34	Oct 02
Cement , construction tools			
Alexandria Development Limited	Alexandria Cement	318.42	May 02
Ciments Francais	Suez Cement	952.62	Oct 01
ASEC	Helwan Portland Cement	1221.95	Oct 01
Cimentos de Portugal, SGPS	Ameriyah Cement	1661.00	Mar 00
Holderbank	Egyptian Cement Co.	150.90	Aug 00
Cemex Copmany (Mexico)	Assiut Cement	1265.00	Nov 99
Suez Cement	Torah Cement	1315.00	Jan 00
Blue Circle	Alexandria Cement	589.00	Dec 99
Egyptian-French consortium	Egyptian Gypsum	92.50	Dec 00
Jacob DeLafon	Egyptian French Industrial Company (SIFE)	2160.00	Nov 00
Belleena Company	Delta Sand Bricks	57.00	Jul 99
Lafarge Company	BeniSuef Cement	1400.00	Aug 99
Commercial International Bank (CIB)	Misr Sons for Constructions	20.00	Jun 99
Cemex Misr Distribution	Cemex Company (Mexico)	1265.00	Nov 99
Orascom Construction Industries (OCI)	Egyptian Container Handling Company	25.00	Mar 99
Other Industries			
Pirelli Company	Alexandria Tires	639.00	Jun 99
El Tholathia Group	El Nasr for Dehydrating Agriculture Products	9.80	Jun 99
Atlantic Industries	Coca - Cola Bottling Company Egypt	107.40	Jun 99
Abou El Nasr and Ashour Group	National Paper Company	70.00	Aug 99
Unidentified firms			
Capex Holding	Egyptian Anglo Fund Management	4.70	Aug 00
Anchor Investor	Egytrav	NA	Jan 01
Alawqaf Association	Ramsis Agriculture	152.50	Dec 99
El Kahky Group	NubaSeed	3.50	May 99

Source: Cairo & Alexandria Stock Exchanges, Monthly Bulletin, May 2003