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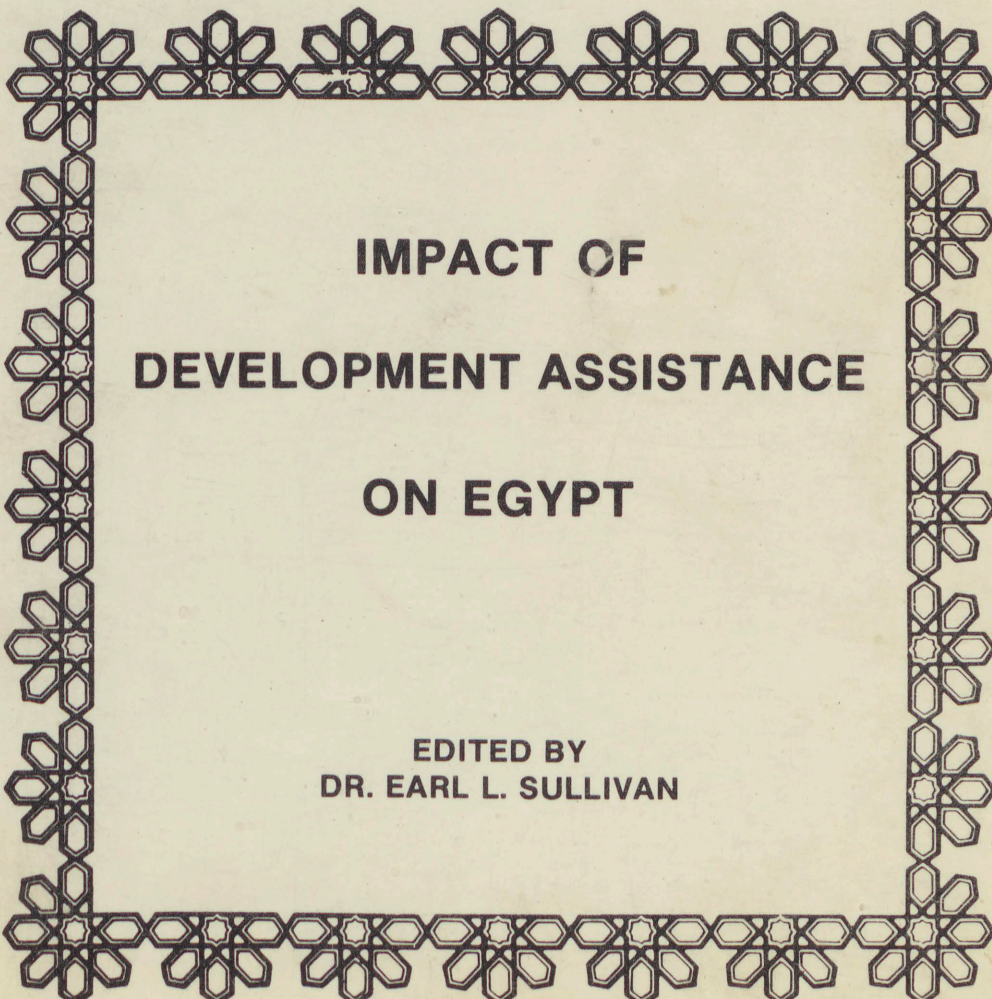
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# CAIRO PAPERS IN SOCIAL SCIENCE



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## IMPACT OF DEVELOPMENT ASSISTANCE ON EGYPT

EDITED BY  
DR. EARL L. SULLIVAN

Egypt and the U.S.:  
An Aid or Trade Relationship?

by Dennis D. Miller

"Do not attempt to do us any more good. Your good has done us too much harm already."---  
Sheikh Muhammed Abdou, an Egyptian in London, 1884<sup>1</sup>

"... (The) 'law of political irony' that a great deal of what we do to help people actually hurts them, and a great deal of what we do to hurt people actually helps them. There are many exceptions to this law, but its operation is frequent enough to be a cause for concern."-- Kenneth E. Boulding, 1978<sup>2</sup>

These quotes set the tone for what is to follow. But before starting, let me give you an indication of where I intend to go in this paper. First, I want to discuss why it is that U.S.A.I.D. may create too much ill-will in Egyptian-U.S. relations. Second, I will argue that Egypt could do considerably more itself in the absence of U.S.A.I.D. Third, I see that Egypt will necessarily have to become much more export-oriented than presently and that in this direction are many opportunities as well as uncertainties. Nevertheless, it appears that only by becoming export-oriented will Egypt be able to deal successfully with its immense economic problems and at the same time become independent of U.S.A.I.D.

Admittedly, I am skeptical of U.S.A.I.D. in Egypt. But conditions, I believe, warrant skepticism, especially since all of other Third World nations, Egypt receives more U.S. economic assistance per year than any other. Also, it is quite natural for an American to question what the U.S. is getting in return. By asking this question, I have revealed that perhaps some Americans think that the U.S. has considerable self-interest involved and that many of us do have certain expectations. And it is at this point that problems begin to arise. Our self-interests and expectations as the donor nation do not necessarily square with those of the recipient nation, Egypt.

I want to avoid entangling myself in trying to answer the question of what good is being done that would not have been done in the absence of U.S.A.I.D. This question suggests the conversation between Lewis Carroll's two logicians, Tweedledee and Tweedledum:

"I know what you're thinking about", said  
Tweedledum: "but it isn't so, nohow."

"Contrariwise," continued Tweedledee,  
"if it was so it might be; and if it were so,  
it would be: but as it isn't, it ain't. That's  
logic."<sup>3</sup>

So, to attempt in any way to show what would have happened, I would be

committing the fallacy of fictional questions.<sup>4</sup> Because history is a complicated network or tangle of interactive forces, it would be folly to pretend to be able to answer such "fictional questions". Ironically, that doesn't keep us from wondering about it.

A more tangible question is what harm is being done? Even here problems of direct causation sometimes defy clear resolution.

Certainly in a country with a rather modest GNP, estimated to be L.E. 24.6 billion in fiscal 1983/84 (roughly \$35 billion at the official exchange rate, or \$20.6 billion at the black market rate)<sup>5</sup>, such large amounts of resources, \$1 billion of civilian aid and as much as \$1 billion of military aid,<sup>6</sup> annually entering the economy are bound to have heavy impact, not all of which is beneficial.

Since 1975, the U.S. aid package to Egypt has totaled about \$8.6 billion in civilian aid alone.<sup>7</sup> Between 1980 and 1985, military aid is expected to total \$3.5 billion.<sup>8</sup> Not including multiplier effects, the combined annual civilian and military aid is anywhere between roughly 5.7 percent to 9.7 percent the size of Egypt's GNP, depending upon the exchange rate one chooses.

Certainly this amount of assistance is enough to establish a large degree of dependence on the part of Egypt. If no other harm is done, it does reduce the credibility of Egypt's non-aligned status. To many Egyptians, this is a very high price to pay for U.S.A.I.D. (This subject is political and foreign to my realm as an economist so I will not digress on it.)

Some development economists have written rather extensively upon the negative effects of developmental assistance. Probably one of the most well known, in this respect, is P.T. Bauer of the London School of Economics. In his almost classic work, Dissent on Development (1971)<sup>9</sup> and more recently, in his Equality, the Third World and Economic Delusion (1981) he has tended to emphasize that economic assistance very often results not in further development but in greater politicization of the economy. According to his thesis, as aid enters an economy and is certainly dispersed, those nearest to the aid inflows are favored over those further away. Resources and human efforts are then diverted from economically productive activities to supporting activities that permit greater access to incoming aid. This buttresses the power of the central government but it is very likely that little longlasting economic benefit occurs as a result.

How applicable this thesis is to Egypt is debatable, but at least we are better aware of what to guard against because of it. That U.S.A.I.D. about one year ago had 66 projects underway with 2000 subprojects in Egypt<sup>10</sup> suggests that perhaps aid is entering in a rather more dispersed fashion than the centralized fashion that concerned Bauer. But the question still remains, and has been asked, about the importance of many of these projects to Egypt's economic development.<sup>11</sup>

Another author who has recently written on aid and its negative effects upon economic development is Melvin Krauss of New York University. In his new book, Development Without Aid (1983),<sup>12</sup> he argues that economic aid actually had retarding effects upon at least two of the four Asian show case examples of development success -- South Korea and Taiwan. The other two -- Singapore and Hong Kong -- have hardly received any aid. He maintains that American aid

allowed South Korea and Taiwan to continue what he called "wealth-destroying protectionist and anti-capital import policies".<sup>13</sup> It was the existence of aid that, as one reviewer remarked, was, "a dangerous sedative that dulls the incentive to look for lasting remedies".<sup>14</sup>

According to Krauss, when it appeared that U.S. aid would discontinue in the early 1960s, these countries were challenged to use their resources better and they have been doing relatively well ever since. Some of the beneficial policies they adopted were low import tariffs and export orientation. They also concentrated more upon increasing the economic pie than on its distribution. And, ironically, their income distributions are known to be relatively less unequal than in most other less developed economies. Though developmental experiences of one country are not always applicable to another country, the experiences of South Korea and Taiwan do make me wonder about many of Egypt's policies since they seem to be, in effect, nearly the opposite of these two nations' policies.

That there are such skeptical writers as Bauer and Krauss is healthy since there seems to be an unbalanced consideration of aid. Aid, so it seems, is almost by definition considered good. This seems to be due largely to the fact that we hear assessments of aid's value from those who seem most intimately connected with it, the administrators. Many of them, if not most, derive their living from the existence of aid. They are the experts who tell us why aid is necessary and what good it is doing. They, like other professionals, are what the British satirist and playwright, George Bernard Shaw, said were conspirators against the layman. We should be somewhat suspicious of their claims if only because of their high and often unchallenged positions of authority.

Also, there is a bias in determining how much aid is appropriate. It seems that no matter what, more aid is appropriate. When aid is present, and growth and development are evident, this attests to the success of aid and people conclude that more will bring the same. But when things are not going well, for instance, in Tanzania -- an African country whose aid receipts rose from \$10 million per year in 1967 to \$650 million per year by 1981-82 but whose economy is in shambles<sup>15</sup> -- the argument is that aid is insufficient. P.T. Bauer likens aid to champagne: ".... in success you deserve it, in failure you need it".<sup>16</sup>

Economic theory does, in a limited way, provide some insight into the question of aid. "Pure aid", by this I mean aid that is an unconditional and direct transfer of wealth from one country to another, increases the economic resources available to the recipient country more than does foreign direct investment which claims resource returns starting at some future date. And the late development economist, Harry G. Johnson, observed that pure aid is preferable to trade. This is because the exporting developing country must relinquish some resources in return for other resources it prefers, whereas no such sacrifice is required in a "pure aid" transfer from a developed country.<sup>17</sup>

But like many sleek and elegant economic models, this "pure aid" model is somewhat irrelevant. Aid is seldom an unconditional and direct transfer of real resources. Rather, a whole host of complications creep in to make this highly stylized "pure aid", "polluted" aid.

This takes us up to one of my main points. Because aid is seldom, if ever, pure, the relationship between granting country and recipient country is likely

also to become polluted or tainted to some degree.

The grantor often has quite strong expectations of certain types of returns, tangible and often intangible, which are often at odds with the recipient country's expectations. If these expectations are not explicit from the start, then trouble is likely to brew. And even if they are well articulated at the beginning, the very process of aid administration allows new and various expectations to arise which might be quite different from the initially articulated ones.

There is also the problem of perceiving what aid is rather than what it should be. Even if the ends of aid are well articulated and mutually agreed upon by both giver and receiver, this does not necessarily change perceptions as to what aid is.

The perception of what aid is, is quite critical. Aid has multidimensional aspects and cannot be, or is not, I would venture to say, perceived by all in the same manner. To some, aid might clearly be seen as largely integrative.<sup>18</sup> In this sense, the U.S. is rich and Egypt is relatively, and only materially, poor. The U.S., due to its economic fortune, is obliged to give aid. This view, I must add, is likely to be considered by most as quite naive. But, coming from the U.S. mid-West as I do, I know that at least in the U.S. heartland there are some who view aid in this light. The aid, to them, is given out of a genuine desire to help.

Perhaps the less naive and more realistic view is that the U.S. extends aid to Egypt basically out of its own self-interest to maintain a greater degree of peace and stability in the Middle East. Elements of exchange are present here. Egypt gains from aid, the U.S. gains from more certainty in the Middle East.

Some, who see aid in this exchange light, perhaps think of aid as a type of bribe. To get Egypt to mollify its bellicose stance towards Israel, the U.S. offered certain assurances of financial support. The Camp David Agreements formalized this exchange. Egypt would be guaranteed a certain degree of economic support particularly to compensate it for the probable and subsequent withdrawal of Arab aid, which amounted to \$6.8 billion from 1974 to 1979.<sup>19</sup>

One could argue that threat may have been an element involved as well. If the U.S. does not come forth with sufficient aid that Egypt wants, then Egypt would make things rougher for U.S. vital interests in the Middle East. It is doubtful that U.S. aid is perceived by many in this light, if only because of its unsavory aspects in forums of policy and diplomatic discussion. But we must admit that some, however few, view U.S. aid in this way.

So, images of aid are likely to differ. And our expectations on the basis of those images are also likely to differ. And furthermore, when it comes down to the nitty-gritty practical problems of aid administration, these various images may result in conflict.

In a more general way, regardless of our cultural origins, we can agree that aid should concentrate upon improving the living standards of the population. Minimums of food, clothing, shelter and medical care are the type of basic needs<sup>20</sup> important to the lives of people everywhere. But the conflict arises about the means that are adopted to achieve these ends.

The U.S. is generally thought to be a very pragmatic country that stresses efficiency of market economies as the desirable way to improve the basic living standards of peoples. According to this view, government quite frequently stands in the way of market efficiency. Lessen government intervention and rely more on market mechanisms and the living standards in Egypt are likely to dramatically improve.

But wait a minute. Egypt, so it seems, is not so easily convinced of the virtues of private property-market economies, otherwise it would not claim a "socialist" identity or maintain such a huge public sector. It seems, therefore, not convinced that efficiency of market is so great as to outweigh what it perceives to be the market's numerous and sizable inequities.

Therefore, with U.S.A.I.D., it appears inevitable that there will be dissatisfaction on both sides of the grant relationship. Each side will naturally feel that it is being pushed in directions contrary to deeply rooted values or ideological systems.

An example of this concerns food subsidies. Certainly up to a point they were relatively efficient and equitable. At a conference held in Cairo on agriculture in Egypt last Spring (1983), the results of a study revealed that only three to seven percent of subsidized food was used for unintended purposes.<sup>21</sup> To most, this is a tolerable amount of waste in view of the likely amount of malnutrition and even starvation the subsidy system prevents.

But the problem with this study was that the data then were two years old. During that two-year period, animal fodder has shot-up in price, while the real price of subsidized food declined due to inflation. In other words, subsidized human food has become relatively cheaper by a large amount in comparison to animal fodder. And, we can well imagine that increasing amounts, greater than the three to seven percent level, of human food are going into the receptive stomachs of animals. President Mubarak has even commented on this.<sup>22</sup>

So, what is the acceptable level of waste, i.e. inefficiency, to provide a certain amount of equity? We may now agree that the waste occurring is too much. But to decide what threshold is intolerable is not easy. Those who advocate market allocation are likely to draw the line at a lower threshold than those who stress socialist equity considerations.

These basic differing political orientations and cultural traditions of the U.S. and Egypt are bound to cause problems in the administration of aid since aid is given not unconditionally. Egypt will most assuredly view U.S.A.I.D. as overbearing and meddlesome, while the U.S. will view Egypt's use of aid as inefficient and misdirected. This does not contribute to a healthy relationship. And, as a U.S. citizen who enjoys living in Egypt, I am not pleased about how Egyptian-U.S. relations may end as a result.

My second point was discussed in a recent article<sup>23</sup> in which I argued that Egypt could do more for itself by relying more on price allocation. As a result, Egypt could gain, through increased efficiency, more resources than are given to Egypt by the U.S. through aid. Since aid frees up resources elsewhere for alternative uses, I argued, aid must actually be contributing to the Egyptian government's slowness in bringing about change in obviously poor policy areas, e.g. price controls in farm products which discourage agricultural production, or petroleum product prices at below world market

prices.

If removing price controls were more politically feasible, Egyptians would not have to complain about the meddlesomeness of U.S.A.I.D., since it would no longer be needed. Certainly, I think, Egyptians would feel considerably more independent politically, as would be appropriate for a "non-aligned" country.

My final point is that increasingly it appears that Egypt will have to become export-oriented. This will be a painful redirection but in view of its mounting resource needs, Egypt hardly has any choice.

How can I say this? Two facts allow this claim. First, Egypt's food needs are growing much more rapidly than its population. In 1981, food consumption was growing at eight percent annually.<sup>24</sup> Already Egypt imports fifty percent of its food needs,<sup>25</sup> and that alone consumes forty to fifty percent of its export earnings.<sup>26</sup> If we add to this a debt-service ratio of about twenty-two percent<sup>27</sup>, we see that eighty-seven to ninety-two percent of Egypt's export earnings are in a sense earmarked for food and servicing its debt. Both of these financial burdens are likely to continue growing.

But on the other hand, the rates of growth of Egypt's main sources of foreign exchange earnings are slowing. The main four foreign exchange earners grew by more than a factor of six from 1974 to 1982 in real terms, where they constituted roughly 20 percent of Egypt's GNP in 1982.<sup>28</sup> It now appears that world market conditions portend decreasing rates of growth in earnings from petroleum, the Suez Canal and workers remittances, and perhaps subdued growth in tourism, the smallest earner of the four.<sup>29</sup>

In addition to this situation of increasing import needs and declining rates of growth in foreign exchange revenue sources, is the very tenuous foreign exchange situation. At the end of 1982, Egypt had only enough foreign exchange for one month's imports.<sup>30</sup> The Egyptian pound is under pressure, obvious from the forty percent and increasing gap between the "official incentive rate" and the free market (or black market) exchange rate.<sup>31</sup> If there were to be a devaluation, which appears inevitable to me, then the cost of food imports would increase by nearly forty percent. We normally consider the demand for basic foods to be relatively inelastic, particularly if their prices are controlled domestically. This then would push the total of the food bill plus the debt service bill to very nearly what Egypt is now earning in foreign exchange. Little would then be left to purchase other needs.

Egypt then must become more export oriented. If maintained, its past policies of import substitution or present policies of import rationalization, will worsen its plight. The potential for exports on international markets is many times greater than the benefits from concentrating on Egypt's limited domestic market. Import substitution traps the Egyptian economy at low levels of productivity while it passes up very expansive opportunities in international markets. I really do not see that Egypt has much alternative in view of its mounting economic problems.

Some will ask in which area Egypt enjoys a comparative advantage. It seems clear to most, or anyone who has traveled through Cairo, that there are, indeed, a lot of people here. And Egypt lacks both land and capital. So its relative abundance is in labor.



A few statistics will clarify this. The European Economic Community (EEC), Egypt's largest aggregated trade partner, has about 450 people per square kilometer of cultivable land whereas Egypt has 1880.<sup>32</sup> But Egypt's density increase in terms of additional people per area of cultivable land is more than ten times greater than the EEC's. Egypt has an additional fifty five people per square kilometer of cultivable land per year compared to the EEC with only an additional 4.5.<sup>33</sup> To feed this increasing population would take an additional 16 completed agricultural projects the size of the Egyptian American Rural Improvement Service's (EARIS) each year.<sup>34</sup> In view of such numbers, it is difficult for Egypt to deny its relative abundance of people, and derivatively, labor, or to deny the scarcity of land.

Capital intensive industries are not where Egypt's comparative advantages lie and are, therefore, inappropriate. Take many already in place capital intensive industries and consider their subsidies or the high protective tariffs that they enjoy, e.g. steel and aluminum.

To create each job place requires much investment. If capital is used in this country, it should be used sparingly and extensively to support the many with small amounts of capital each rather than a few with large amounts of capital.

Indeed, it will be difficult to reorient Egypt's industrial base towards more appropriate technologies but I doubt that Egypt has much choice, particularly over the long run. The sooner this transition gets underway, the better. The longer the delay, the more difficult it will be.

Perhaps U.S.A.I.D.'s role could be that of a buffer against unexpected or temporary adjustment problems during this period of transition from import substitution to export-orientation.

In any case, Egypt's future seems to be in the direction of increased international trade. Aid can be used to help or to hinder this process or reorientation. But only diversified trade in respect to both products and trading partners, which is based on Egypt's use of its comparative advantages, will provide Egypt greater political freedom and independence than it is likely to enjoy relying on U.S.A.I.D. These two intangible benefits, freedom and independence, I'm inclined to think, Egyptians desire more than continued high reliance on U.S.A.I.D.

#### END NOTES

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2. Kenneth Boulding, Ecodynamics: A New Theory of Societal Evolution (London: Sage Publications, Inc., 1978), p. 195.
3. Cited in David Hachett Fisher, Historian's Fallacies: Toward a Logic of Historical Thought (London: Harper Colophon Books, 1970), p. 21.
4. *ibid.*, p. 15.
5. U.S. Department of Commerce, Foreign Economic Trends and Their Implications for the United States: Egypt (Washington D.C.: U.S. Government Printing Office, Sept. 1983), pp. 1 & 2.
6. Magda el-Sanga Romano, "Mammoth \$1 Billion U.S. AID Program for Egypt Fails to Satisfy Either Nation", The Wall Street Journal, Jan. 28, 1983, p. 8.
7. *ibid.*
8. *ibid.*
9. Peter T. Bauer, Dissent on Development: Studies and Debates in Development Economics (London: Weidenfeld and Nicolson, 1971).
10. See footnote 1.
11. Ronamo, p. 8.
12. Melvin Krauss, Development Without Aid (New York: McGraw-Hill, 1983).
13. Melvin Krauss, "Foreign Aid and the 'Gang of Four'", The Wall Street Journal, December 20, 1982, editorial page.
14. Amar Bhide, "Finding Economic Cures for the Third World", The Wall Street Journal/Europe, April 15, 1983, p. 6.
15. "Tanzania's Socialist Safari is Lost in the Rush", The Economist, June 11, 1983, p. 80.
16. Bauer, Equality ..., p. 91.
17. Harry G. Johnson, Economic Policies Toward Less Developed Countries (Washington D.C.: The Brookings Institution, 1967), pp. 55-56.
18. This is one of Kenneth Boulding's social organizing forces the others of which are threat and exchange. Integrative systems, "... involve such things as love and hate, benevolence and malevolence, affection, altruism, community, legitimacy, and so on." (Boulding, p. 16) Threat, another organizing force, "... begins with a communication of the type, 'You do something I want or I'll do something you don't want', usually with some evidence of the capability of the latter.....". (Boulding, p. 16) "Exchange is based on invitations rather

than threats -- "You do something for me and I'll do something for you". (Boulding, p. 17) All three constitute the "TIE" saga. For more on this see Boulding, pp. 141-210.

19. "Egypt is Mending Its Ties with the Arabs", Business Week, Dec. 13, 1982, pp. 42 & 43.

20. For more on this see Paul Streeten et. al., First Things First: Meeting Basic Human Needs in Developing Countries (Oxford: Oxford University for the World Bank, 1981).

21. From personal notes taken at the Agricultural Conference held in May 1983.

22. Reported in the Middle East News Economic Weekly, July 29, 1983, p. 15.

23. "The Prices Egypt Must Pay for an Economic Future", The Wall Street Journal/Europe, Oct. 3, 1983, editorial page.

24. Margaret Ford, "Agriculture Struggling to Feed the Country", Financial Times Survey: Egypt, June 7, 1982, p. ix.

25. U.S. Department of Commerce, p. 9.

26. Adapted from *ibid*, p. 1.

27. *ibid*, p. 16.

28. Bent Hansen and Samir Radwan, Employment Opportunities and Equity in Egypt (Geneva: International Labor Organization, 1982), p. 34 for the 1974 U.S. dollar figure of the four sources of foreign exchange earnings. The 1981/82 figures in U.S. dollars terms were found in Economic and Commercial Sections, American Embassy in Cairo, "Economic Trends Report", pp. 1 & 2. Various issues of the International Monetary Fund's International Financial Statistics were used to convert to constant U.S. dollars to compare real growth in GNP with foreign exchange earnings from these four sources. The official exchange rate used was \$1.00 equal to L.E. 0.70 as used in the American Embassy's report.

29. An editorial in the Al-Ahram reported in Middle East Economic Digest, Sept. 16, 1983, p. 21 argued that prospects for increased foreign exchange earnings from petroleum, worker's remittances and the Suez Canal were bleak. The other, tourism, has not increased by much recently due to short-run lack of capacity for recreational tourists (See Khalid Ikram, Egypt: Economic Management in a Period of Transition (London: The Johns Hopkins Press for World Bank, 1980), pp. 309-312). Crude tanker traffic is down through the Suez (Middle East Economic Digest, April 29, 1983, p. 8), and there is little prospect for an increase given the data from the first 5 months' of 1983 collection of Suez revenues (Middle East News Economic Weekly, Sept. 25, 1983, p. 10).

30. U.S. Department of Commerce, p. 5.

31. *ibid*, p. 16.

32. Information adapted from Rosemary Brady, "More Bad News for American Farmers", Forbes, Oct. 10, 1983, pp. 72-75, current population estimates and population growth rate estimates from the U.S.A.I.D. for Egypt. The EEC's

population was an estimate based upon data found in Paul Samuelson, Economics, 11th edition (Mc Graw-Hill Book Company, 1980), p. 31.

33. Adapted from ibid.

34. Adapted from Pamela Johnson, "Making Egypt's Desert Livable", Aid Horizons, Oct. 1983. p. 15.

35. For more on this see Paul Streeten et al., Basic Human Needs in Developing Countries (London: Oxford University Press, 1982).

36. From personal notes taken at the Agricultural Conference held in May 1983.

37. Reported in the Middle East News Economic Weekly, July 29, 1983, p. 12.

38. The Princes Egypt Must Pay for an Economic Future, The Wall Street Journal/Europe, Oct. 2, 1983, editorial page.

39. Margaret Lord, Agriculture Struggling to Feed the Country, Financial Times Survey, June 7, 1983, p. 12.

40. U.S. Department of Commerce, p. 9.

41. Adapted from ibid., p. 1.

42. ibid., p. 18.

43. Bent Hansen and Samir Radwan, Employment Opportunities and Quality in Egypt (Geneva: International Labour Organization, 1982), p. 34 for the 1974 U.S. dollar figure of the four sources of foreign exchange earnings. The 1981/82 figures in U.S. dollars were found in Economic and Commercial Section, American Embassy in Cairo, "Economic Trends Report", no. 1 & 2, various issues of the International Monetary Fund's International Financial Statistics were used to convert to constant U.S. dollars to compare real growth in GNP with foreign exchange earnings from these four sources. The official exchange rate used was 21.00 equal to 1 U.S. dollar as used in the American Embassy's report.

44. An editorial in the Al-Ahram reported in Middle East Economic Digest, Sept. 16, 1983, p. 21 argued that prospects for increased foreign exchange earnings from petroleum, workers' remittances and the Suez Canal were bleak. The other tourism, has not increased by much recently due to short-run lack of capacity for recreational tourists (see Khalid Ibrahim, Egypt: Economic Management in a Period of Transition (London: The James Hoggin Press for World Bank, 1982), pp. 303-312). Credit banker traffic is down through the Suez (Middle East Economic Digest, April 29, 1983, p. 8), and there is little prospect for an increase given the war from the first 2 months of 1983 collection of Suez revenues (Middle East News Economic Weekly, Sept. 25, 1983, p. 10).

45. U.S. Department of Commerce, p. 9.

46. ibid., p. 18.

47. Information adapted from World Bank, "More and More for Egyptian Farmers", Foreign Affairs, Oct. 10, 1983, pp. 12-13, current population estimates and population growth rate estimates from the U.S.A.I.R. for Egypt. The EC's