MERIA

EGYPT'S DEMOGRAPHIC CHALLENGES AND ECONOMIC RESPONSES

By Paul Rivlin*

The rate of population growth in Egypt has fallen as it experiences demographic transition, along with many other countries in the Middle East and the developing world. Despite this the absolute annual increase in the population currently exceeds one million and the number of people reaching working age and entering the labor market each year is enormous. The increase in female participation in the labor force has been a major factor behind the decline in fertility, but it has also increased pressures in the job market. The challenge for the economy, in terms of generating new jobs, is therefore formidable. This paper analyzes demographic trends in Egypt in recent years and sets them against the performance of the economy.

DEMOGRAPHIC TRENDS

In 2000, Egypt's population came to 67.9 million, making it the most populous Arab country, with 24 percent of the Arab world's population. In demographic terms, it was the third largest country in the Middle East after Turkey and Iran.

Data on the Egyptian population and its development is problematic with different sources using varying definitions and methodologies. United Nations data, revised in 2000, is given in Tables 1 and 2. It includes the approximately two million Egyptians living outside the country. The U.S. Bureau of Census and Egypt's Central Agency for Public Mobilization and Statistics (CAMPAS) data also include Egyptians living abroad. The Egyptian population census only includes those actually resident in the country.

In the period 1980-2000, the population increased by just over 24 million or 55 percent. In the period 2000-2020, on the basis of United Nations medium variant assumptions about fertility rates, it is forecast to grow by 22 million or 32 percent. The fall in the growth rate from 2.2 percent to 1.4 percent annually is dramatic but, in 2000-2020, it translates into an absolute increase of 21.8 million, only two million less than that of 1980-2000.

Table 1: Population, 1980-2020 (mns.)*(1)

	Millions	Increase	% change
1980	43.749	6.519	3.2
1985	49.748	5.999	2.6
1990	56.227	6.479	2.7
1995	61.991	5.764	2.0
2000	67.884	5.893	1.9
2005f	73.807	5.923	1.7
2010f	79.260	5.453	1.5
2015f	84.425	5.165	1.3
2020f	89.686	5.261	1.2

* including Egyptians resident abroad
f = forecasts, based on medium variant assumptions

Table 2 provides explanations for the changes noted above. The crude birth rate has fallen continuously, largely due to reductions in fertility. The sharp fall in the death rate, as a result of improvements in health, meant that the balance between the birth and death rates--the population growth rate--declined more slowly than the birth rate. Life expectancy increased which meant that the share of the elderly in total population rose. Infant mortality also declined from 115 deaths per thousand live births at the beginning of the 1980s to 65 at the end of the 1990s. Part of the decline in infant mortality was due to the fall in fertility rates and the increased period of time between births that resulted.(2)

The balance is expected to change over the coming twenty years: birth rates are expected to continue decelerating while death rates remain fairly stable. Because the size of the population has increased, the lower population growth rate will barely affect the absolute numbers added to the population each year. In the period 1980-85, the average annual addition to the population was 1.2 million. In 2000-2005 it is forecast at 1.184 million--a fall of only 1.3 percent. In 2015-2020 the annual absolute increase is forecast at 1.033 million, only 14 percent less than in 1980-85.

Table 2: Population Trends, 1980-2020(3)

	1980-85	1985-90	1990-95	1995-2000	2000-05f	2005-10f	2015-2020f
Crude birth rate/1000	38.8	34.8	28.9	26.6	23.3	20.4	18.6
Death rate/1000	12.7	9.6	7.9	6.8	6.1	5.7	5.7
Population growth rate %	2.57	2.45	1.95	1.82	1.67	1.43	1.26
Fertility	5.06	4.58	3.80	3.40	2.88	2.36	2.10
Population increase (1000s/year)	1,200	1,295	1,154	1,179	1,184	1,091	1,033

The estimates in Table 2 show that the rate of population growth in 2000 was no higher than 1.82 percent. Egypt's official statistics agency, CAMPAS, however, forecast a growth rate of 1.9 percent. Furthermore, official figures issued in March 2001 showed that actual growth was 2.1 percent. This meant that between the end of 1999 and the end of 2000 the population increased from 65.21 million to 66.55 million. If growth had been as CAMPAS forecast, the population would have been 66.45 million at the end of 2000 or 100,000 less. If the growth rate had been 1.82, as suggested by the UN, then it would have been 66.40 million at the end of 2000, 150,000 less. According to Egypt's National Center for Population, the faster than expected rate of growth was due to a slowdown in the government's family planning program and a rise in poverty. This means that the poor believed that they could earn more as a family by sending their children to work in the informal labor market.(4) The implication is that as a result of these incentives, they had more children. As is shown below, economic hardship has also been used to explain the opposite: the fall in fertility.

Why did fertility rates fall? One explanation, given for the period 1985-92, was government policy. Governments in Egypt have, since Nasser, adopted policies to reduce the population growth rate. These changed over time, with the emphasis moving from supply to demand factors and back. The policies adopted by Mubarak's governments have all been carefully crafted to take religious sensitivities into account.(5)

Another explanation suggests that the real causes for the fertility decline, while facilitated by the extension of family planning services, were social and economic changes. The most important of these was the sharp fall in real wages that began in the mid-1980s.(6) Evidence suggesting socio-economic rather than direct political causation is the fact that fertility among educated women, especially those with higher education, increased between 1986 and 1995, while that of the less educated, and presumably poorer, fell (see Table 3). Fertility among uneducated women fell by 20 percent, while that of women with incomplete primary education declined by almost 22 percent. Those with complete primary and partial secondary had a near 17 percent decrease and those with secondary and higher education had a 0.3 percent rise. Between 1990-92 and 1993-95, the two categories of better-educated women experienced increases of 2 percent and 3 percent respectively. These were changes over a short period and may not reflect longer run trends, but within the periods examined the correlation between levels of female education and changes in fertility rates is clear.

Table 3: Fertility Rates by Female Educational Level, 1986-1995(7)

	1986-90	1990-92	1993-95
Uneducated	5.69	5.03	4.57
Incomplete primary	4.74	3.98	3.72
Complete primary, and partial secondary	3.68	3.01	3.07
Secondary and above	2.99	2.91	3.00

The current fertility rate is well above that which would result in a stabilization of the population. Fertility rates are higher in Upper Egypt, especially in poor, rural regions. One third of the population and half of Egypt's poor live in Upper Egypt. It is also the area with the highest infant mortality rates, 36 percent above the national average. The fall in fertility has not translated into a lower absolute number of births. This is because the number of women of reproductive age (15-49) increased, from 25.7 percent of the total population in 1986 to 26.5 percent in 1996 and is forecast to go on rising until 2005 at least. Between 2000 and 2005 their number is forecast to rise by two million (see Table 4).

In 1976, women accounted for 7.3 percent of the labor force aged 15 years and over. Ten years later this had increased to 9.1 percent; and in 1996, it reached 13.4 percent.(8) This is part of a trend that is evident in much of the Arab world and is of major significance. The fact that women increasingly went to work outside the home meant that they could not afford to have so many children. This was in part because the cost of maintaining children rose as welfare benefits were reduced under the impact of IMF and World Bank economic stabilization programs. It was also due to the need to maintain the real income of the family at a time when real earnings were falling. Women went to work in order to increase total family income; they had fewer children in order to increase income per family member.

Courbage suggests that female employment replaced rental income (that earned from the sale of minerals and oil) throughout the Arab world. In Morocco, for instance, income from phosphates collapsed in 1975. In order to supplement its income, the government increased taxation and encouraged women to work outside of the home. In the years after 1975--more as a result of real economic incentives rather than just government propaganda--Moroccan women increasingly participated in the labor force and the demographic transition gathered momentum. As rental incomes (especially from oil) fell elsewhere in the Arab world in the 1980s and 1990s, the same patterns became apparent.(9) This was also true for Egypt when rental incomes declined in the 1980s.

Table 4: Women of reproductive age(10)

	Number (thousands)	Share of population (%)
1976	8,140	21.0
1986	15,247	25.7
1996	16,059	26.5
2000	16,672	26.3
2005	18,626	27.0
2010	17,769	24.0

DEMOGRAPHIC GROWTH AND THE LABOR FORCE

Despite the fall in the rate of growth of the population, a change in the age structure has resulted in an increase in the working age population. Although this phenomenon (known as the demographic gift) is common in other Arab and developing countries as well, it presents serious challenges for the job market.(11)

Table 5 shows that the 15-24 year cohort increased by 41 percent between 1976 and 1983 while the total population rose by 16 percent. In the period 1983-91, the size of the cohort rose by 6.9 percent while total population rose by 20 percent. This downward trend came to an end between 1991 and 2000 when the cohort increased by 35 percent and the population by 22 percent. Between 2000 and 2005, the size of the 15-24 year cohort is forecast to increase by 650,000 (or 4.6 percent). The absolute number is forecast to decline between 2005 and 2010.

Table 5: Labor Market Entry Age Cohort, 1976-2010(12) (15-19 year olds, 20-24 year olds, thousands)

	1976		**1983**		**1991**	
	15-19	20-24	15-19	20-24	15-19	20-24
Males	2,142	1,522	2,619	2,840	2,671	2,643
Females	1,849	1,562	2,465	1,973	2,964	2,275
Total	3,992	3,083	5,084	4,813	5,635	4,939
Total, both cohorts	7,015		9,897		10,579	

	2000		**2005**		**2010**	
	15-19	20-24	15-19	20-24	15-19	20-24
Males	3945	3479	3798	3921	3328	3779
Females	3670	3191	3562	3653	3179	3548
Total	7615	6670	7361	7574	6507	7327
Total, both cohorts	14,285		14,935		13,834	

It should be noted that entry into the labor market does not only occur at the completion of school or college education. There is also a large number of drop outs from school, with children usually going to work in the informal urban sector or in agriculture. If drop-outs are included, then in 1999/2000 the total number of job-seekers was 896,000.(13) The drop-out rate is correlated with poverty levels, with more children from poorer homes failing to complete their education and fewer of them going to school at all.(14)

The actual number entering the labor market annually in 2000-2005 has been estimated at an average of 1.523 million, with 245,000 leaving, giving a net addition of 1.278 million. In 2020-2025, it is forecast at 1.395 million entrants and 502,000 quitting giving a net addition of 893,000.(15)

Unemployment

Unemployment in 1995 was estimated at 10.8 percent of the labor force, with the rate among females at 23.6 percent and among males at 7.2 percent. The underestimation of female participation rates and under-reporting of the employment of individuals aged under 15 and over 60 meant that the overall rate was probably nearer 15 percent. Unemployment was much higher among those with intermediate educational levels than among the illiterate or low educational level populations. In 1995, 33.3 percent of those with intermediate educational levels were unemployed compared with 0.4 percent of illiterates, 0.6 percent among those with reading and writing skill levels only. Those with advanced intermediate levels of education had a 19.4 percent unemployment rate and among those with university education, 11.8 percent.(16) Why was unemployment higher among those with more education than among those with less? Demand: those with low skills could find work or they left the labor market. Those with higher skills found it harder to find work and if they could not, they remained in the market looking for it. There were two reasons why the better educated were not in demand. The first was the structure of the economy and the second was the nature of their education and skills. Both of these factors are examined below.

According to Assaad, between 1988 and 1998, unemployment increased from 890,000 to 1.72 million, or from 5.4 percent to 7.9 percent of the labor force.(17) The 1996 census recorded that unemployment was 1.535 million or 8.7 percent (these figures are based on restrictive definitions of unemployment).(18) In order to halve the rate of unemployment by 2015, the rate of increase in employment will have to be increased from an actual average increase of 1.4 percent a year in 1973-94 to 3.6 percent in 2002-2015.(19)

Employment

Where will the jobs come from? Where have they been created in recent years? Table 6 gives the breakdown of employment by sector in 1988 and 1998. Agriculture was the largest single sector supplying an extra 1.2 million jobs. Next came the private, non-agricultural sector where employment increased by 1.7 million. The share of the state in total employment increased despite the liberalization and privatization programs.

Table 6: Employment by Sector, 1988-1998(20)

	1988		**1998**		**1988-98**
	(no. 000s)	**(%)**	**(no. 000s)**	**(%)**	**(growth %)**
Government	2,974	19.0	4,794	23.9	61.2
State-owned enterprises	1,294	8.6	1,043	5.2	-19.4
Total state sector	4,323	27.6	5,837	29.1	35.0
Agriculture	6,643	42.4	7,817	39.0	17.7
Private sector non-agricultural	4,707	30.0	6,377	31.8	35.5
Of which: manufact., mining & utilities	883	5.3	1,339	6.7	51.6
Total	15,673	100.0	20,031	100.0	27.8

The fall of employment in state owned

enterprises was more than outweighed by an increase in that of the civil service. This sector includes manufacturing, mining and utilities, where the increase was 450,000 or just over nine percent of the total increase in employment in the economy.

The Egyptian bureaucracy has expanded rapidly since independence. For instance, in the period 1988-98 alone, and despite reforms, the civil service grew rapidly from 2.974 million to 4.794 million while employment in the rest of the public sector fell from 1.349 million to 1.043 million.(21)

Education

Egypt's education system is biased towards higher education and towards males. At a more general level, the return on the large investments made has been low. This is despite the fact that the education system has raised literacy and other educational achievements.

In 1992-93, the drop-out rate at the primary school level was 15.74 percent. At the preparatory level, in the following year, 1994-95, it was 12.9 percent. These two statistics suggest that there were opportunity costs for sending children to school; for poorer families there were potential earnings losses. A significant number of children found work: if they did not they would remain in school. This work was, by definition, unskilled. This fact is in line with one of the findings in surveys of the unemployed: the illiterate and unskilled categories of workers experienced lower unemployment rates than those with more skills.(22)

STRUCTURAL CHANGE IN THE EGYPTIAN ECONOMY

There are a series of legacies that contribute positively and negatively to the economy's current position and ability to generate employment. These are the legacies of Nasser, Sadat and the policies followed by Mubarak in recent years.

Nasser's Legacy: Centralization

The First Five-Year Plan (1960-61 and 1964-65) stated that 55 percent of locally funded investment was to come from the private sector. The forecast for private sector savings was unrealistic, even in more harmonious conditions than those of Egypt in the late 1950s and early 1960s. The implied marginal savings rate for households in the First Five-Year Plan was 16 percent, as compared with an actual rate of 3 percent in 1959-60. There was virtually no discussion in the plan of how the savings rate was to be increased so radically. The failure of the private sector to mobilize its share in investment in the first year of the plan was one of the factors that provoked the nationalization measures of 1961. In 1959, laws were enacted that forced joint stock companies to invest 5 percent of their net distribution to stock holders in state banks and to limit profit distribution to 10 percent of the nominal value of company shares. This caused a collapse of share prices on the stock market. In February 1960, two major Egyptian banks were nationalized; one of them, the Misr Bank, owned much of the country's textile industry that thus fell into the hands of the state. In July 1961, a year after the First Five-Year Plan was launched, the remaining banks, as well as insurance companies, shipping companies, heavy and basic industries, were nationalized. Many firms were forced to sell 50 percent of their shares to the public sector. Public utilities, foreign trade and the Alexandria Cotton Exchange were also nationalized.

The period 1960-65 did, however, bring a number of accomplishments. The consensus in the literature is that the economy grew by an average annual rate of 5.5 percent, although this figure was partly inflated by the growth of civil service and public sector payrolls. A massive employment drive led to the creation of one million jobs. A total of 1.7 billion Egyptian Lira was invested, of which between 25 percent and 28 percent went into industry. About 94 percent of planned investment was carried out, although industrial investment fell 10 percent below target, electricity 22 percent, and housing 20 percent. The Achilles heel was the balance of payments. Imports rose much faster than had been planned, and exports grew much more slowly. Instead of falling by 6 percent between 1960-61 and 1964-65, imports rose by 80 percent, mainly because agriculture failed to grow as planned and because imports of intermediate goods for industry were much higher than expected. As a result, there was a balance of payments crisis as early as 1962. On the other hand, the 5.5 percent annual GDP growth rate was 1.5 percent lower than the planned rate. Agricultural production increased by 3.3 percent, as compared with a planned rate of 5.1 percent. All other sectors, with the exception of electricity and construction, also fell behind their target growth rates.

There were three main problems with the policies adopted under the First Five-Year Plan. First, the key policy adopted was one that had been implemented since the 1930s: import substitution. Its main weakness was that it reduced imports of one kind, only to increase those of another. The new industries developed in the 1960s were designed to supply local markets; they lacked the economies of scale and the marketing expertise needed to export. Most significantly, they required imports, but were not able to finance them through exports.

The second problem was the reliance on private sector investment at a time when private sector activity was strongly discouraged. In the final analysis, this meant that the plan was doomed. It could have been saved had the public sector been able to raise the funds instead, but there was no mechanism in place for this and no adjustments were made to the plan to allow for the radical changes in ownership which occurred. The plans and the nationalization had different origins. This was part of a more serious problem -- the separation of planning from the policy-making system. In July 1961, the Finance Minister was abroad when he heard, to his surprise, of Nasser's nationalization announcement.(23)

The third major problem was, ironically, a result of the achievements. The employment drive that created one million jobs resulted in the public sector and the civil services becoming dumping grounds for graduates who had received guarantees of employment. This had major negative effects on the efficiency of various enterprises, but managers of companies that had protected markets and a guaranteed source of raw material had few incentives to protest. Nor did the repressive political environment encourage debate, let alone protest.

Egyptian planners wanted progress on all fronts. They wanted heavy industry and an increasing supply of consumer goods. They designed import substitution projects that were expected to increase their exports in a short period of time. They planned to reach full employment and efficiency, to finance the Aswan High Dam project, and to invest in massive horizontal expansion in agriculture. The economy, however, could not meet all these demands within the short period of time allocated in the plan, and, by 1964-65, it came to a standstill. The Five-Year Plan had no proposals for the production of machinery or other capital goods.(24). This was despite the fact that the regime talked about industrial policy in very comprehensive terms and aimed to manufacture everything "from the needle to the rocket."(25)

Sadat's Legacy: Growth of Rental Income and Partial Liberalization

Between 1970 and 1980, the economy grew largely because of large increases in foreign exchange income from oil, the Suez Canal, tourism revenues and workers' remittances. These sources of income equaled 3 percent of GDP in 1970 and rose to 24 percent in 1980.(26) The share of rental income in GDP continued to grow until the mid-1980s. This led to a real appreciation of the exchange rate which in turn encouraged the development of non-internationally traded sectors of the economy such as housing, infrastructure and other services at the expense of non-oil tradeables, such as textiles, agricultural goods and other industrial products. The rapid growth of the economy permitted income to grow and enabled the government to spend money on the badly neglected infrastructure. This meant improvements in nutrition, life expectancy, educational enrollment, electrification, housing and other services, all of which contributed to an increase in welfare.

The weakness in this pattern of development was that reliance on imports rather than on domestic production increased. Between 1974 and 1980, GDP rose by 81 percent but GDP excluding rental sectors rose by 47 percent.(27) Thus 34 percent of growth was due to sources of income that were unstable and lagely determined abroad. The state benefited from the boom, in that much of the foreign income went to the treasury and it therefore became a major supporter of investment and welfare. This could not, however, be sustained when incomes fell in the 1980s. As a result, large budget deficits developed.

In 1975, Egypt began discussions with the IMF. A letter of intent was signed in 1976, but reductions in food subsidies, which were part of the agreement with the Fund, resulted in major riots in January 1977. These riots have affected Egyptian policy making ever since: they made the government unwilling to take steps that would reduce the living standards of the poor, especially in urban areas. They also made it impossible for the government to implement the reforms contained in the agreement. In 1978, an agreement was reached with the IMF for an Extended Fund Facility for a three-year period. This enabled Egypt to obtain an addition $650 million from the Gulf Organization for the Development of Egypt (GODE). However, as a result of the September 1978 Camp David agreement with Israel, the Gulf States stopped all concessional loans to Egypt. Western donors, however, took their place. With increasing oil revenues, Suez Canal tolls, tourism receipts and workers remittances, Egypt did not need to implement IMF-based measures which called for budget cuts, austerity and structural reforms. At the same time it lagged behind on interest payments on foreign debt. In January 1981, Egypt's non-Arab creditors agreed to provide an additional $3 billion of concessional loans and grants.

In 1981, Egypt's foreign debt equaled about $30 billion and its servicing cost $2.9 billion a year, $1.3 billion in repayments of principal and $1.6 billion in interest. Debt servicing consumed 28 percent of total foreign exchange earnings. During the period 1980-84, Egypt's oil revenues fell by 36 percent and its other main foreign currency earnings were stagnant. From 1981 to 1986, the total value of exports of goods and services declined by 11 percent. In June 1986, the foreign debt equaled $46.3 billion. Although debt servicing increased more slowly in the first half of the 1980s than in the 1970s, military debt rose rapidly after the 1979 peace treaty with Israel. The debt service ratio in 1989 reached 32 percent when total debt equaled 117 percent of GNP.

Sadat's legacy was an unreformed public sector and a liberalized foreign trade sector. During his years in power, rental incomes increased rapidly but so did foreign indebtedness. Sadat began the process of restoring private property to the position it had been in before the sequestration, confiscation and nationalization carried out by Nasser. It was, however, accompanied by much corruption and the deepening of what is now called crony capitalism.

Mubarak: Reluctant Reformer

Few economic reforms with long term effects were introduced in the 1980s. By 1990 change had become unavoidable. The Gulf War of 1991 provided the opportunity to introduce radical reforms and incentives for the international community to reduce Egypt's debt burden. The government was able to sell the reforms at home as being a necessary part of Egypt's international commitments. In May 1991, Egypt and the IMF agreed on a $372 million standby loan. In exchange, the government increased energy prices, reduced subsidies, unified the exchange rate, increased interest rates, partially liberalized foreign trade, reduced the growth of credit, reformed the tax system and cut government spending and the budget deficit. The Paris Club of official international creditors agreed to write-off $10.1 billion of Egyptian debt by mid-1994. This equaled 50 percent of the amount owed to Egypt's main creditors. The World Bank agreed to lend Egypt $300 million and the African Development Bank agreed to lend $250 million. A $400 million social fund was also created with foreign assistance to help cover the social costs of structural change and to compensate workers laid-off as a result of privatization.

During the Gulf War in the spring of 1991, the United States wrote off nearly $7 billion of military debt that had cost Egypt about $700 million a year to service. The Gulf Arab States also wrote off about $6 billion, none of which was being serviced.

The main result of the 1991 program was a large reduction in the budget deficit. This permitted a deceleration in monetary growth that in turn helped to reduce inflationary pressures. The reduction in inflation was a considerable achievement given the increases in government administered prices that occurred between 1991 and 1993. Many commodities were removed from price controls and prices of other goods produced by monopolies were increased to levels closer to those abroad. The dispersion of import tariffs was reduced; almost all export quotas were abolished, as were many non-tariff barriers to trade. A securities market law was introduced to improve the functioning of the stock exchange. The public sector was restructured: 17 diversified holding companies were set up, each with financial autonomy. The government ceased to provide investment funding and public credit guarantees. The aim of this reform was to prepare companies for privatization. Finally, the government took steps to improve the environment for private sector business. Numerous controls and licensing requirements were either abolished or simplified, although many others remained in force, especially at the local level.

The budget deficit was sharply reduced from 20 percent of GDP in the fiscal year (FY) 1991 to 1.6 percent in FY 1995. Excluding interest payments, the change was even more dramatic: from a deficit of 12.8 percent in FY 1991 to a surplus of 8.4 percent in FY 1995.(28) Interest payments on domestic debt rose as treasury bills were sold to cover much of the budget deficit. In order to stabilize the economy, attract funds from abroad, and encourage saving, interest rates were sharply increased in 1991. This meant high interest payments on the treasury bills issued: in 1994 they reached the equivalent of 11.3 percent of GDP. By 1995, they had fallen to 7 percent as a result of lower domestic interest rates and debt stocks that, in turn, were made possible by the decline in the budget deficit.(29)

There was a major improvement in the balance of payments as well. The current account (which measures the gap between payments and receipts for trade in goods and services and movements of income in and out of the country) improved from a deficit of $1.3 billion in 1989 to a surplus of $1.9 billion in 1991. This was the result of the slowdown in the economy due to the Gulf Crisis and the deflationary impact of the 1991 measures. There was also an increase in remittances as a result of higher interest rates on Egyptian pound deposits and the easing of controls on the movement of capital. Finally, the Paris Club Agreement reduced the debt-servicing burden; the amount due in 1991 was $7.9 billion while in 1992 it was $3.9 billion. These measures provided long needed financial stability: both the budget deficit and the balance of payments were under control. Only with the announcement of a more comprehensive privatization program in 1996 did economic growth accelerate.

These measures provided Egypt with much needed financial stability. The balance of payments deficit fell to a level that could be financed with ease; the budget deficit was cut sharply reducing the need for much internal borrowing by the government and thus releasing, at least potentially, resources for investment by the private sector. Finally inflation was brought under control: From 1990 to 1993 it averaged 16.7 percent a year; from 1997 to 2000 it averaged 5.4 percent. The economic growth rate responded slowly. Between 1991 and 1995 it averaged 3.3 percent a year and accelerated to 5.4 percent during the 1996-2000 period. Why was the response slow and temporary?

There is a wide consensus among economists that industrialization is the solution to Egypt's economic problems. According to the Economic Research Forum for the Arab World, Iran and Turkey, manufacturing will become the leading sector if the economy is outward looking. This will enable it to make full use of human resources and generate employment as was done in East Asia. Egypt's industrial sector has received a major share of public and private investment but only accounts for 14 percent of employment. Exports accounted for only 10 percent of output. This was due to the effects of import substitution, weaknesses in education and training (despite large national investments in higher education), and the weaknesses of links between science/technology and industry. It also resulted from the lack of incentives for firms to improve product quality and management and to adopt technological improvements or seek export markets. Manufactured exports increased from $1.3 billion in 1992 to only $1.7 billion in 1997. As imports of manufactured goods rose from $3.9 billion to $8.6 billion during the same period, the deficit on trade in manufactured goods increased sharply from $2.6 billion to $6.8 billion.(30) International economic conditions from the mid-1980s have been much less favorable for the development of exports by new entrants into international markets than they were in the 1960s and 1970s. International markets were growing less quickly, were more saturated with goods from competitors and were in part more protected against imports than they were when the East Asian tigers began their rapid growth phase. For Egypt to get a foothold in export markets in these conditions was not easy even if it had been better prepared.

Table 7: The Structure of Merchandise Exports, 1990-1999 (%)(31)

	1990	1996	1999
Total exports	100	100	100
Of which:			
Agriculture	16.3	8.8	10.9
Mining and quarrying	19.3	25.1	10.2
Manufacturing	64.4	66.1	78.9
Of which:			
Textiles	28.1	19.5	18.5
Chemicals	15.3	25.1	37.5
Food, beverages, tobacco	2.9	6.0	5.9
Value of total exports ($ millions)	2,582	3,535	3,501

Table 7 shows that the share of manufacturing in exports rose. In 1999, over half of manufactured exports were textiles and chemicals. The latter were mainly by-products of petroleum refining. The range of products exported was narrow and the share of other manufactured exports suggests that the economy was not diversified and did not build much new export capacity beyond traditional products and petrochemicals and related products. As indicated above, one of the main reasons why the range and volume of exports was small was the cumulative effect of import substitution policies. These policies had been designed to boost domestic production by limiting imports; in such a framework, exports were not a priority. The policies were gradually reformed in the 1980s and 1990s but remained largely in force.

In 1997, the nominal rate of protection was estimated at 24.6 percent. The effective rate, which applied to value added, was 30.5 percent. Despite reforms, rates of protection were highly dispersed and so their effect between products and industries was far from neutral. The effect of the tariff system was to pull resources away from sectors that were more productive to less productive ones. Resources were also pulled away from labor intensive industries to capital intensive ones. This limited employment creation as well as exports.

The furniture industry was the most highly subsidized, ‘benefiting' from an 80-plus percent effective rate of protection. In contrast, cotton-ginning exports were effectively taxed at a rate of 11 percent. This system has been summarized as follows: in 1997, exports were subject to an average tariff rate of 19.7 percent. Even with duty drawbacks this was a burden, particularly so for non-traditional exporters who were in effect being taxed out of existence. The need for imports, that were suject to taxes and other restrictions limited the extent of industrialization.

In addition, there were non-tariff barriers such as port charges, both explicit ones such as fees and implicit ones such as the costs of delays.(32) These added considerably to the costs of exporting and were significantly higher than in other Mediterranean countries with which Egypt competed on European agricultural markets.

At least three interests were at work. First, government revenues from tariffs on imports were significant. Second, domestic producers were a lobby or interest group that the government had to face. Furthermore, the government was always concerned about maintaining employment levels. Maintaining import substitution meant maintaining employment. Removing import substitution meant reducing employment in the *hope* that future employment would be created. What was not appreciated, or sufficiently appreciated, was that more employment might be created through policy reforms than would be destroyed.

The Economic Slowdown since 2000

In 2001-2002, the economic growth rate decelerated to an average of 3.3 percent as a result of a series of factors. The overvaluation of the Egyptian pound encouraged imports and discouraged exports resulting in a shortage of foreign exchange. The high interest rates that supported the high exchange rate discouraged investment in productive (tradeable) sectors. As the economy became less and less competitive, more funds went into property investments (untradeable) and consumption. This was encouraged by the large-scale release of land for private investment and public investment in low-return desert reclamation schemes. The effects of the intifada were felt in the Egyptian tourist market and were reinforced by the major terrorist attacks in the United States on September 11, 2001. The downturn in the international economy hurt Suez Canal revenues and oil revenues declined.(33) Growth continued to be slow in the first half of 2003.(34)

CONCLUSIONS

Egypt has benefited from demographic transition and from the potentially low dependence ratio made possible by the so-called demographic gift. Despite this the demographic and labor force challenges are large. The economy's performance has been uneven. Growth accelerated in the second half of the 1990s but fell to a slower rate in 2001-2002 (and probably 2003) than in the first half of the 1990s. The nature of growth process was also problematic. First, it was not employment intensive enough to absorb all those entering the labor market. Second, it did not demand skilled labor on a sufficient scale to absorb those completing school and college. It did not provide incentives for education that could help transform the quality of the labor force and thus its productivity.

In view of the success of the measures taken in 1991 and 1996, why did Egypt not go further in reforming the economy? The answer is that radical reforms were seen on balance as as a threat to the stability of the regime. The legacy of the past weighed heavily on the regime, especially in the public sector. As Henry and Springbord state:

> …the economic price of Mubarak's political success is high. Inward-looking crony capitalism, coupled to the military sector and the leviathan government with its still large public sector, generates the patronage and provides the controls required for the regime to retain its support within the state, while contemptuously ignoring or repressing what little autonomous political life remains. But this nexus of cronies, officers, bureaucrats, and public service managers is inherently inward-looking, as it feeds off rents that can only be provided by the monopolies and oligopolies of a protected economy.(35)

An Egyptian writer has summarized the interrelationship between many of the factors that have been analyzed here:

> The Egyptian state has been characterized by the importance of rental incomes (Suez Canal tolls, oil revenues, workers remittances,

> foreign aid). The state has had a central role since pharonic times. This was largely due to the central role of the Nile in the economy. The state's clientalistic exercise of power made it resistant to reform. The channels of mediation between the people and the state have been weakened by populism, by Nasser's corporatist experiment that reduced (or even extinguished) the middle classes' ability to mobilize, organize and aggregate their voice. Private entrepreneurs are always dependent on family connections and on lobbying the state via personal patronage rather than through collective organizations. As a result they could never make their case in an organized, explicit and public manner.(36)

Organized political activities outside the contours of government control are seen as a threat and are treated accordingly. The amount of freedom granted to political parties in Egypt, while greater than in some of the other Arab states, is still very limited. This means that the electorate is not offered real alternatives and the government is not subject to effective scrutiny.

The trends that are apparent in Egypt--demographic transition, large absolute increases in the population and labor force, uneven economic performance and high levels of unemployment--prevail in many other Arab countries. It will take many years before the beneficial demographic trends reach the point where they no longer put pressure on the economy. Until then, at least, Egypt and possibly other countries in the region will have to contend with severe economic and political constraints on their performance.

Professor Paul Rivlin is a Senior Research Fellow at the Moshe Dayan Center for Middle Eastern and African Studies, Tel Aviv University. He is also the author of "Leadership and the Economy in the Arab World" which appeared in the September 1997 issue of MERIA.

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