Technology: Make-or-Break Issue for Egypt's Economy

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The privatization debate across the board in Egypt is a direct result of the failure of various state firms in different sectors. This failure has not only been financial: the state enterprises have also failed to generate technology and have become net importers of the innovations they need to continue their economic activities.

One can even venture as far as to say that the state sector has produced virtually no technology on its own and all of its machinery and equipment is nothing more than imported capital. Many public firms have failed to develop feeder industries primarily because they have been unable to design the technology needed to get such industries going.

The Nasr-Fiat case is a good example. After more than 20 years of production, Nasr-Fiat is still dependent on Fiat of Italy for its very survival, unable to make even the simplest of parts.

Much blame has been directed to the centers of scientific research in Egypt with the claim that they have been unable to design the technology necessary to assist state firms in acquiring their own capital, as if innovation was meant to come from outside public-sector firms rather than from within.

But then why do firms in Europe and the United States manage to introduce innovation and acquire new technology without the assistance, in most cases, of technological institutions? The real answer lies in the use of competition as a mechanism to develop technology.

Firms competing on the international market strive constantly to improve their products, lower their costs and make their methods of operation more efficient to capture more market share, additional profit and, more importantly, simply to survive.

Egyptian state firms, though, are sheltered from international competition and in many cases even domestic competition, and thus are not under any real pressure to enhance their efficiency, lower their cost and maintain their market share, which is protected for them through a variety of state regulations and guidelines.

In addition, most state firms that participate in international markets are not really

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competing because their exports are directed to countries with which Egypt has trade agreements and their products flow to these nations in the majority of cases to fulfill barter trade deals.

Why is Egypt continuing to shelter state firms from international and in many cases even domestic competition? The answer is simply that it does not have confidence that the state sector can survive in a competitive environment. Would Nasr-Fiat survive, for example, if import tariffs and quotas were removed on all small car imports?

The standard argument for not removing import tariffs and quotas on items such as automobiles is that international producers have economies of scale and thus can build automobiles at lower cost, and that opening a door to the free importation of such automobiles simply means that Nasr-Fiat, and many state organizations like it, will be undersold in the domestic market.

More importantly, however, international competitors not only have the economies of scale that Egypt lacks, they also control technology that Egypt's state firms have failed to develop. Thus, the country continues to shelter firms such as Nasr-Fiat from international competition and when other organizations like General Motors try to enter the Egyptian market they are driven away because their entrance would be a threat to Nasr-Fiat's monopoly and its ability to make money.

What is truly sad is that the majority of state firms claiming to make profits are in the black only because they benefit from import bans or restrictions and high import tariffs that normally exceed 200 or 300 percent. In addition, they often domestic monopolies and monopolies on foreign trade in many barter agreements, and they are granted tremendous input subsidies on items such as electricity and fuel which, on the other hand, are not granted to their domestic Egyptian private-sector competitors. If such privileges were taken away, what would be the end result?

The real threat of the 1990s comes from technology, which will make or break most countries. Some countries will add to their capital stock by their own means and through their own technological breakthroughs, and others will constantly be striving to find foreign currency to purchase the technology they have failed to produce.

Egypt seems to be fitting into the latter group, and if such is the case it will remain a net importer of technology that quickly becomes outdated when new advances are introduced. It will then strive to buy these new advances to be able to make products that are competitive on world markets — until technology changes again.

The country could potentially be trapped in a vicious circle that would lead to nothing more than dependency and obsolete industries. These industries would require protection from cheaper goods coming from countries with larger economies of scale, more efficient mechanisms of production and superior technology.