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Egypt's Reforms Need to Cover Vital Areas

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First of two parts
SHAKESPEARE must have been talking about industrial reform in Egypt when he coined the famous phrase, "Much ado about nothing."

Many of the ideas suggested for public-sector industrial reform in Egypt can only be described as out of date or simply ridiculous. Statements by various ministers about public enterprise deficits accumulating from simple management incompetence must all be taken with a grain of salt because, obviously, the public sector's problems go far beyond the need for improved management. If the government is truly serious about state enterprise reform, it will have to address the following issues:

- The establishment of automatic investment approval procedures. The

investment climate in Egypt is bureaucratic and fraught with government red tape. The private sector has difficulty entering areas where the public sector is heavily involved because of the government's fear that additional competition could infringe on the profitability of state-owned enterprises. Around this weak point a bureaucratic mechanism has evolved which makes getting an investment license from state authorities difficult and very time consuming.

Market liberalization should be a key target of the Ministry of Industry because of the need to develop items that are exportable. In addition, many of the products made by public firms in sectors such as food processing and engineering are nonessentials — candy bars, bubble gum, com flakes, color television sets, transistor radios — and the limited return or lack of profitability of most of the enterprises in these sectors justify reform that

goes well beyond the need to appoint competent managers.

- The need to eliminate sources of noncompetitive advantage for the public sector. In many areas, the pub-



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lic sector enjoys a noncompetitive advantage over the private sector. For example, it continues to receive a whole range of implicit subsidies that the private sector must do without.

These subsidies are reflected in the disparities of input prices for electricity and other public utilities and services. The Egyptian government must actively pursue a policy of uni-

fying input prices that public and private firms are charged to allow for fair and efficient competition.

- Growth limitations on state enter-

prises. The food processing and engineering industries are natural high-growth areas for the private sector because of the huge profits they can make in a liberalized environment. The Ministry of Industry should follow a policy of reserving future growth in these areas for the private sector. The production of items such as candy bars and color TV sets should become the exclusive preserve of the private sector in the future.

- Pricing policy. Of all the existing policies, pricing policy in state industries has been the most distorting. The main government objective has been to keep prices low so as to protect living standards. Price controls have been imposed on virtually all categories of goods in varying degrees, a result of an intricate, burdensome and inefficient pricing policy.

For pricing purposes, the goods produced by public enterprises are generally divided into two groups: The first constitutes commodities that are regarded as essential, either for direct or for intermediate consumption. The government has unquestionably tended to regard an array of commodities from state-owned firms as essentials; for example, cigarettes, soft drinks and industrial detergents. The prices of products in this category are determined by an interministerial body, the Higher Policies Committee, chaired by the prime minister.

Price setting for commodities in the second category — nonessential such as bubble gum, chocolate and com flakes, etc. — does not require cabinet approval. The authority is a principle delegated to the board of directors of the company, but its flexibility is limited by the requirement that price decisions have to be approved by its supervising holding company under the Ministry of Industry.