Export Stagnancy in Egypt: What Is Behind It?

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By Khaled Fouad Sherif
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EGYPT in 1989 yet again witnessed a drop in its export levels while imports have increased substantially in real terms, fuelling government and international donor' concerns of continuing export stagnancy.

The real export level fell by $729 million in 1988-89, a decrease of over 22 percent in comparison to 1987-88. Additionally, imports rose by $237.9 million in 1988-89, an increase of 2.5 percent in comparison to 1987-88. Egypt's export record over the past decade and a half has been a major concern and recent devaluations have done little to spur real export growth or to decrease the upward spiraling quantity of imports.

Its numerous advantages over other economies should enable Egypt to reap major export benefits. It could, for example, play a much more important role in exporting horticultural commodities, especially since Egypt can grow fruits and vegetables through the winter when entire continents like Europe are import dependent during that season.

Egypt's geographical proximity to Europe further enhances its ability to ship fresh fruits and vegetables in timely fashion to that continent. Yet, slow growth in agricultural exports and a significant drop in cotton exports demonstrate that Egypt is 'missing the boat.' Furthermore, industrial exports have stagnated and the industrial public sector, which was a major exporter in the 1960s, has witnessed a drop in real exports over the past three years.

Why this stagnation? Is it because the government has not moved on the exchange rate front, or because the government has been resisting further devaluations? If we compare recent devaluations to increases in the consumer price index we see an appreciation of exchange rates. However, only real depreciation of the Egyptian pound will push exports up.

Why is the government reluctant to make serious exchange rate adjustments? The answer undoubtedly lies primarily on what it considers to be the serious inflationary spillover that will accompany such reforms.

State enterprises, for example, import over 60 percent of their raw materials. A weaker pound means more expensive raw materials and likely higher prices for domestic consumers. Higher production costs will result in more costly export commodities which are less competitive on the international market. Every time the government devalues the pound those industries which depend on imported materials will find international competition a little more difficult when their exports enter the market. The more an industry depends on imports, the more difficult exporting will become in times of significant devaluation.

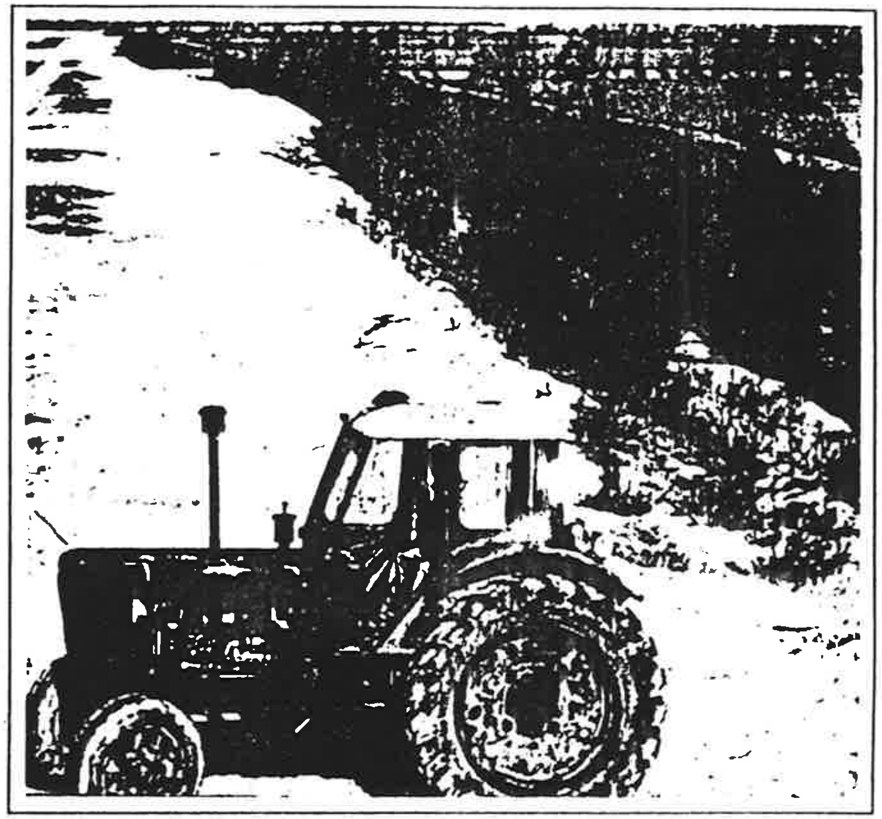
Heavy import dependence may explain to a certain extent why devaluation has done little to enhance export growth. But if Egypt's agriculture sector is strong, why is it experiencing export stagnancy?

There are several reasons for this. Prominent among them is the land use pattern in Egypt. Distorted output prices, among other things, have led to a very odd land use pattern in Egypt where of our 5.8 million feddans of cultivated land, approximately half are used for growing clover *(berseem)*. Obviously, clover is non-exportable and can never be a significant export cash crop.

In fact, a comparison of land use from 1970 through 1987 shows that the amount of land used for the production of clover has expanded while the land used to grow fruits, vegetables and cotton has contracted. Thus, is it surprising that our horticulture exports over the past half decade have not grown in real terms?

The main issue is how to engage Egypt's land use pattern so that farmers will grow more items that can support horticultural export policies. This will be a difficult task primarily because it will involve the restructuring of relative prices — a complex task anywhere.

It could also involve a price liberalization scheme that would allow farmers to reap a larger portion of winter season profits for those fruits and vegetables sold to European countries. Such a scheme is likely to encourage farmers to export rather than rely only on local markets.



Egypt should make use of its internationally capable agricultural sector to help lead the way to stronger export led growth by targeting international markets rather than local ones.

Egypt's answer to its export problem is not to simply devalue the pound because as we have seen this alone is not likely to produce export stimulus. Instead Egypt must reduce its dependency on raw materials if it wants to export more profitably.

With regard to the agriculture sector, issues related to land use and procurement prices have to be addressed.

In the short term, it is doubtful that the government will be able to encourage major export growth unless it introduces major changes in exchange rate policies accompanied by serious reforms in both industry and agriculture.