Egypt's Sacred Cows to Compete?

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IN A document recently distributed by the Egyptian government to various donors and international development agencies, the concept of protection of state-owned enterprises was once again highlighted. The document emphasized that the state would be willing to expose public industrial enterprises to additional domestic and foreign competition with the objective of promoting economic efficiency.

This, of course, implies that the government is committing itself to the removal of various forms of protection, among them budgetary subsidies for state firms.

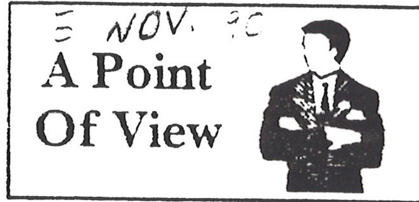
Currently, state-owned enterprises benefit from a wide range of rules and regulations designed to keep domestic competitors out of particular markets or to constrain their ability to expand market share. The government has in place a very elaborate negative list, which, until today, remains unpublished, and which covers those areas that the government considers taboo to private investors.

This negative list was prepared with the objective of protecting the market share of a number of both public and private enterprises and has been widely criticized for its emphasis on preventing additional investment in some areas.

The government is now considering lowering the number of activities on the industrial negative list and is moving in the direction of doing away with some agricultural monopolies controlled by the state's Principal Bank for Development and Agricultural Credit.

In agriculture, the official document clearly states that the government will continue to liberalize cotton and pesticide prices and reduce delivery quotas for items such as rice.

Egypt can learn a lot from the experience of countries like China in this regard. China has been actively pursuing price liberalization policies and has eliminated a number of state monopolies over the past decade. The elimination of state marketing monopolies in China led to significant gains in both efficiency and output from collectives as well as private farmers.



In China, state-owned enterprise monopolies were replaced with private trading organizations that were entrusted with exporting and importing a number of crops as well as fertilizers. The experience of China seems to indicate that Egypt, too, can reap such gains in efficiency, and the latest government reform document specifically points to such a possibility.

Of course, Egypt is a country well known for its diverse and complex tariff and import quota system affecting local industry. Most of the import tariffs and quotas operative today have as their objective the protection of domestic state-owned industrial enterprises, and in some cases infant private-sector industries as well. Some state firms, though, have been receiving import protection for as long as 25 years, and this has tended to hide some obvious inefficiencies.

Take the Nasr-Fiat automobile plant, for example. Analyses by industrial specialists have shown that the plant was profitable from 1982 to 1986 in terms of domestic prices, but when its inputs were valued at world market prices, at least one of its production lines was found to be producing at a loss. Its outputs were worth less than its inputs for four straight years.

Of course, if the government is serious about its claims of wanting to reduce state-owned enterprise protection, it will have to acknowledge and divest itself of those activities that produce at negative value added. Such industrial operations can never compete with imports or in the international marketplace.

Simply acknowledging the existence of uneconomic industrial activities and implementing reform steps to address their inefficiencies will be a big step for a country like Egypt, whose most successful state firms -- Al Ahram beer, for example -- continue to operate as monopolies in the domestic market and are completely sheltered from international competition. Most of Egypt's successful state industries owe their success purely to import quotas and negative-list protection that has kept out domestic private-sector competition.

Only time will tell if the government is serious about decreasing its import tariffs and amending its import quota system, since heavy repercussions will be felt by both the public and private sector if such reforms are implemented.

What is commendable, though, is that the government is actively thinking about ways to do away with barriers to entry into the domestic market by either reducing import restrictions or allowing for additional private investment in the hope that additional competition will enhance efficiency.