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Views on the Crisis

Formulating Egypt's industrial development strategy on sound foundations: Drawing on the South African experience



General Introduction

ECES initiated a set of studies to analyze the implications of the Corona crisis on the various variables and sectors. Now it is time to move to the second stage, which is to put forth the strategic pillars for the post-corona phase in the Egyptian economy, taking into account the new global economic situation imposed by the crisis.

This series of new reports provides a detailed discussion of a set of drivers of change, i.e., issues that, if properly addressed, are expected to cause major developmental strides for the Egyptian economy. These issues may have been dealt with previously, but were not adopted in the required manner and therefore need revisiting, or they may be issues that were not addressed in the first place despite their importance.

This series of reports follows a descriptive and quantitative analysis approach according to the nature of the topic.

Each report focuses on an issue through three main aspects, clarification of the importance of focusing on this issue and the rationale behind it, followed by a quick description of the current situation, a detailed discussion of the proposed change mechanism and timeframe, and any immediate / medium-term / long-term changes. Finally, it identifies the parties responsible for implementation, preconditions for success and the most important expected results.

“Industrial strategy encompasses policy areas such as infrastructure, skills, research and development spending, land use planning, competition, business taxation, regional economic development and export promotion. But industrial strategy implies more than just the sum of these policies. It must mean their overall coordination, aimed at a clear set of objectives or purposes”

**The IPPR Commission
on Economic Justice**

First: Concept of the industrial development strategy

An industrial development strategy or industrial policy, in its broad definition, is "any government policy aimed at inducing a structural transformation towards activities that are expected to contribute more to economic growth or social welfare." According to this definition, the industrial development strategy is not required to target the manufacturing industry only, but may target other activities, foremost of which are services related to manufacturing industries, as currently applied in various countries, especially in light of the shrinking boundaries between services and the manufacturing industry.

In addition, this definition necessarily means that the industrial development strategy depends in its implementation on all government policies not just trade policies, policies for providing industrial lands or other policies that fall under the direct responsibility of the authority responsible for industry in the state. Rather, it includes other policies such as education policies of all kinds, investment policies, and scientific research policies, as well as fiscal and monetary policies.

¹Warwick, K. 2013. Beyond Industrial Policy: Emerging Issues and New Trends. *OECD Science, Technology and Industry Policy Papers*, No. 2, OECD Publishing.
<http://dx.doi.org/10.1787/5k4869clw0xp-en>.

Second: Why is a sound industrial development strategy one of the drivers of change?

- Industrial development strategies are used by various countries with the aim of bringing about continuous structural change in order to achieve the best use of resources that respond to local and global developments and achieve developmental breakthroughs to reach the ultimate goal of "sustainable development."
- Industrial development strategies have an impact on all economic activities, through forward and backward linkages with other activities, including agricultural and mining.
- With regard to the Egyptian economy, although Egypt has formulated many industrial development strategies since the sixties of the twentieth century aimed mainly at achieving industrialization (meaning to bring about a structural change towards manufacturing), the vast majority of these successive strategies were not built on sound foundations. Most of them were very general, and therefore sporadic measures were implemented. This is in addition to the lack of continuity in the implementation of the industrial development strategy; it starts from scratch with the change of the competent minister. As a result, Egypt was unable move forward in industrial development by entering the higher stages of industrialization.

As a consequence of this, the share of the manufacturing industry in the GDP remained within the range of 15% -17% since the eighties of the twentieth century and its structure concentrated in consumer industries and intermediate industries.

- There is a dire need to revisit the method of developing and implementing the industrial development strategy in Egypt. Continuing past practices will not bring about a different result, not to mention the inability to face the challenges of entering the fourth industrial revolution, and those related to the global trends which rely on the provision of high-value-added services.

Third: The Industrial Development Strategy in South Africa[†]

3-1 Principles of the Industrial Development Strategy

The industrial development strategy in South Africa is based on a number of basic principles, namely:

1. Having the necessary economic fundamentals at the macroeconomic level is a prerequisite for formulating an industrial development strategy, namely:
 - Stable macroeconomic climate

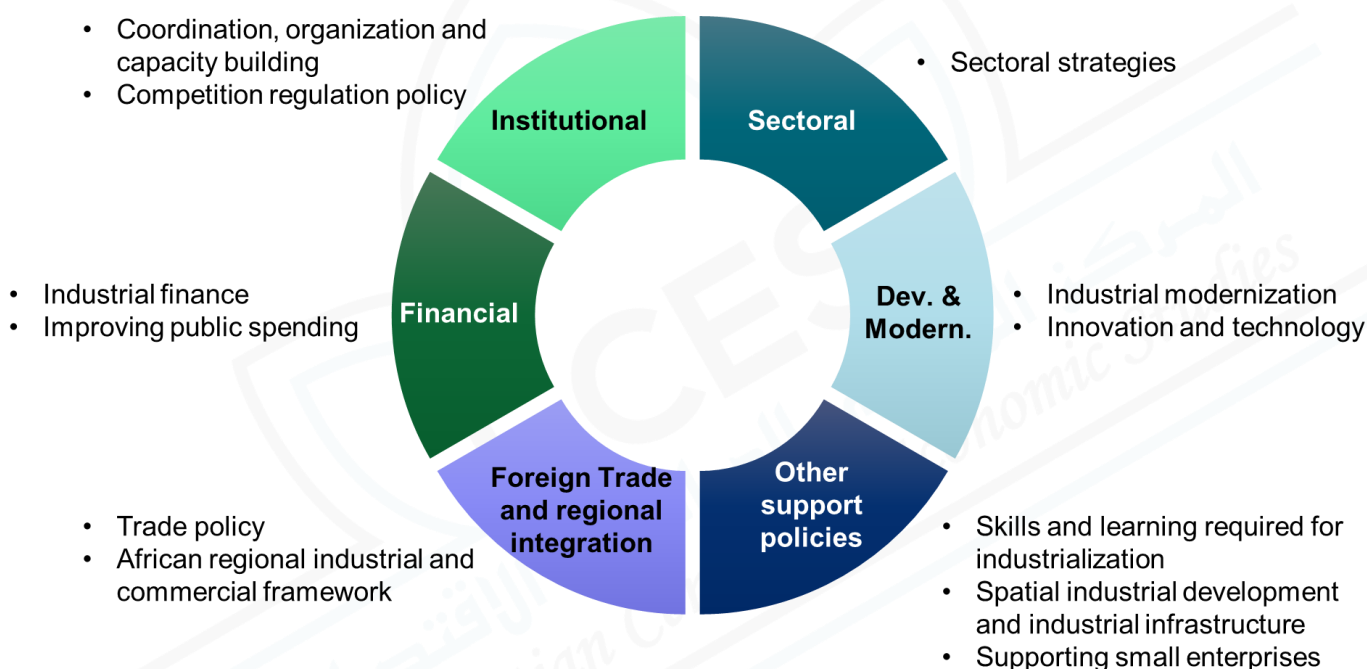
[†]Extracted and analyzed from the industrial development strategy in South Africa.

- Skills and education required for industrialization
 - Traditional and modern infrastructure
 - Innovation and technology
- ϣ. Industrial policy should be focused and implemented at the microeconomic level (that is at the enterprise level), and thus strengthening it is an essential pillar.
 - Ϙ. Fully realizing that implementation of the industrial development strategy does not fall solely on the shoulders of the administration concerned with industry and trade, but rather is the responsibility of the entire government.
 - ϙ. The industrial development strategy cannot succeed without an institutional framework that supports its implementation.
 - Ϛ. Effective use of government spending to achieve the goals of industrial development, in the sense that government spending responds completely and smoothly to the requirements of industrial development, in addition to the efficient use of the government procurement system.
 - ϛ. The industrial development objectives cannot be fully and properly achieved without consistency and integration between public policies, which benefit the entire industrial sector, and sectoral policies.

3-2 Pillars of the industrial development strategy

The industrial development strategy in South Africa is based on 12 strategic pillars, which can be classified into six groups as shown in Figure (1).

Figure 1. key pillars of the industrial development strategy in South Africa



Source: Prepared by ECES based on the industrial development strategy in South Africa.

* Regional integration (which is the concern of the state).

While there is a similarity in the general titles of industrial development strategies, the success of implementation is depends on the existence of a set of foundations, the availability of which is

what characterizes the industrial development strategy in South Africa, as shown in Table (1).

Table 1. Availability of the foundations for successful implementation in the South African industrial development strategy

| Foundations for success | Meaning | South Africa's Industrial Development Strategy |
|--------------------------------|---|--|
| Dynamism | The ability of the strategy to cope with local and international developments. | <ul style="list-style-type: none"> ▪ The strategy is developed in a dynamic way, as it sets the general guidelines and standards on the basis of which the executive programs and sectoral strategies are designed, in addition to the rules that guide the evaluation and follow-up, while leaving the identification of specific sectors, executive programs and targets for the detailed annual plans in the same fixed framework of guidelines and standards. ▪ The annual plans are reviewed, and in light of the progress of implementation, as well as local and international developments, the next action plans are formulated |
| Comprehensive approach | Following a comprehensive approach in tackling areas of weakness at all levels (macro, sectoral and | <ul style="list-style-type: none"> ▪ Although the strategy depends in its implementation on interventions at the enterprise level, there are some programs that are implemented at the macro level, such as availing infrastructure, and at the sectoral level, such as |

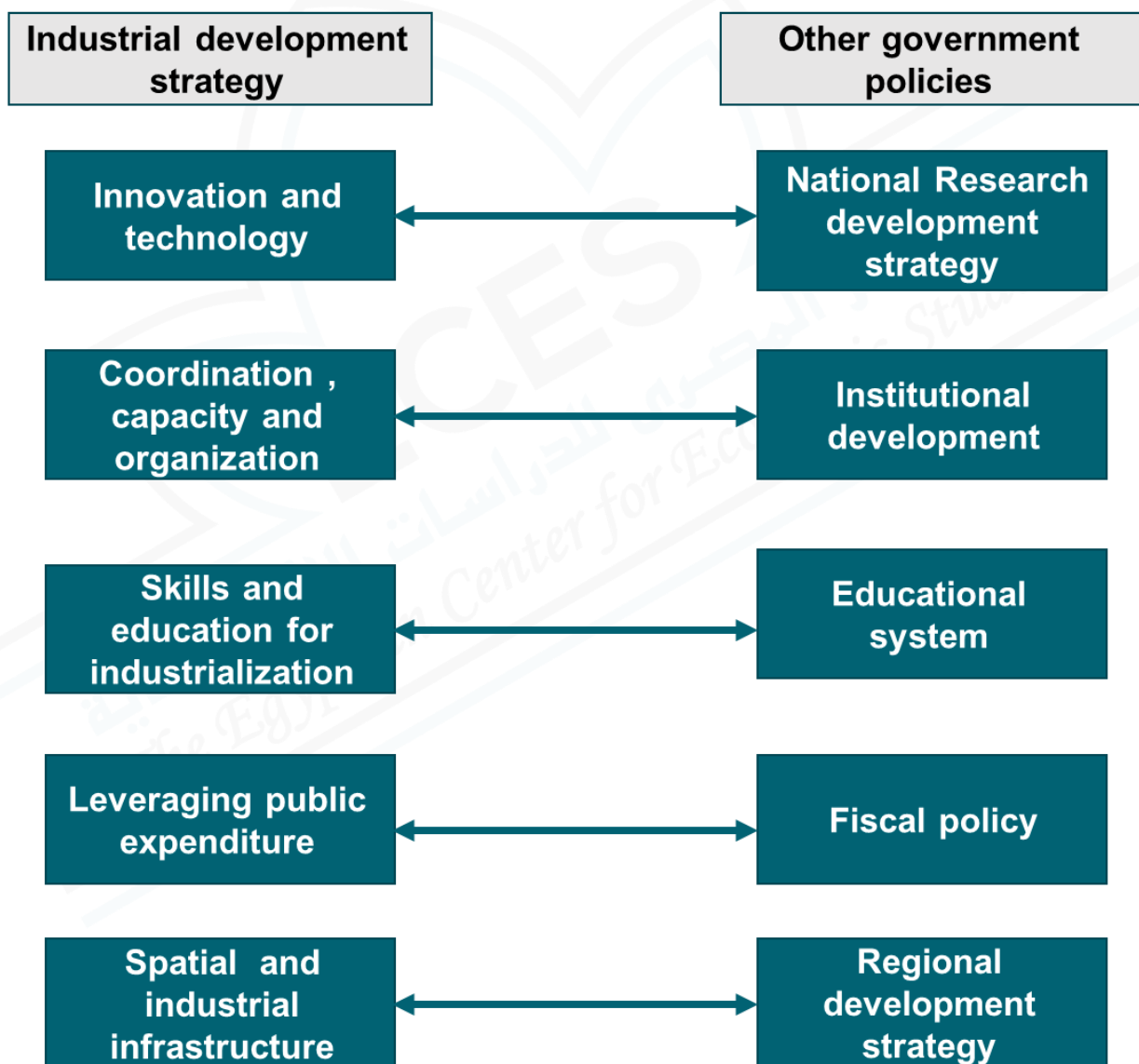
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| | micro (establishments) | establishing specialized sector infrastructure, training and improving the skills needed for specific industries in a manner that is both coherent and comprehensive. |
| Integration | Integration between the pillars of the strategy and with other government policies. | <ul style="list-style-type: none"> ▪ Figure (2) illustrates the interdependence between the industrial development strategy in South Africa and other government policies. For example, with regard to fiscal policy, there is a full response to the needs of industrial development, and it is developed in a manner that achieves more effective government spending. Also, The Department of Science and Technology's National Research and Development Strategy sets the overarching framework for technological interventions, particularly on the research side of R&D. ▪ Figure (3) illustrates the integration between the pillars of the strategy. For example, there are financing programs dedicated to serving the goals of sectoral strategies, industrial upgrading, and supporting small enterprises. |
| Information | Building decisions on accurate and up-to-date information. | Each executive program is developed based on updated detailed information on all dimensions, and an in-depth analysis of all problems and facts. |

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| <p>Supporting frameworks</p> | <p>The existence of adequate and effective support frameworks, particularly institutional and financing frameworks.</p> | <p>Institutional framework: Coordination between government institutions at all levels, through which governance and ease of procedures are achieved, as well as continuous development of the institutional framework, whether through the establishment of new institutions, and / or the strengthening of legislation.</p> <p>Financing framework: Smooth designing of financing programs, their diversity and the multiplicity of their sources, to ensure achievement of objectives.</p> |
| <p>SMART implementation plans</p> | <p>Specific: aims to improve a specific and clear area</p> <p>Measurable: For each target there are clear, measurable performance indicators so that performance can be monitored, evaluated and changed when necessary.</p> <p>Assignable, assigning roles</p> <p>Realistic: Goals are set realistically in light of available resources</p> | <p>In implementation, the strategy depends on detailed work plans. Each of the executive programs includes clear, specific, and measurable performance indicators on the basis of which the evaluation and review process is done, along with determining the entity responsible for implementation and the time-frame thereof.</p> |

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| | - Time related: determines timing of achieving goals. | |
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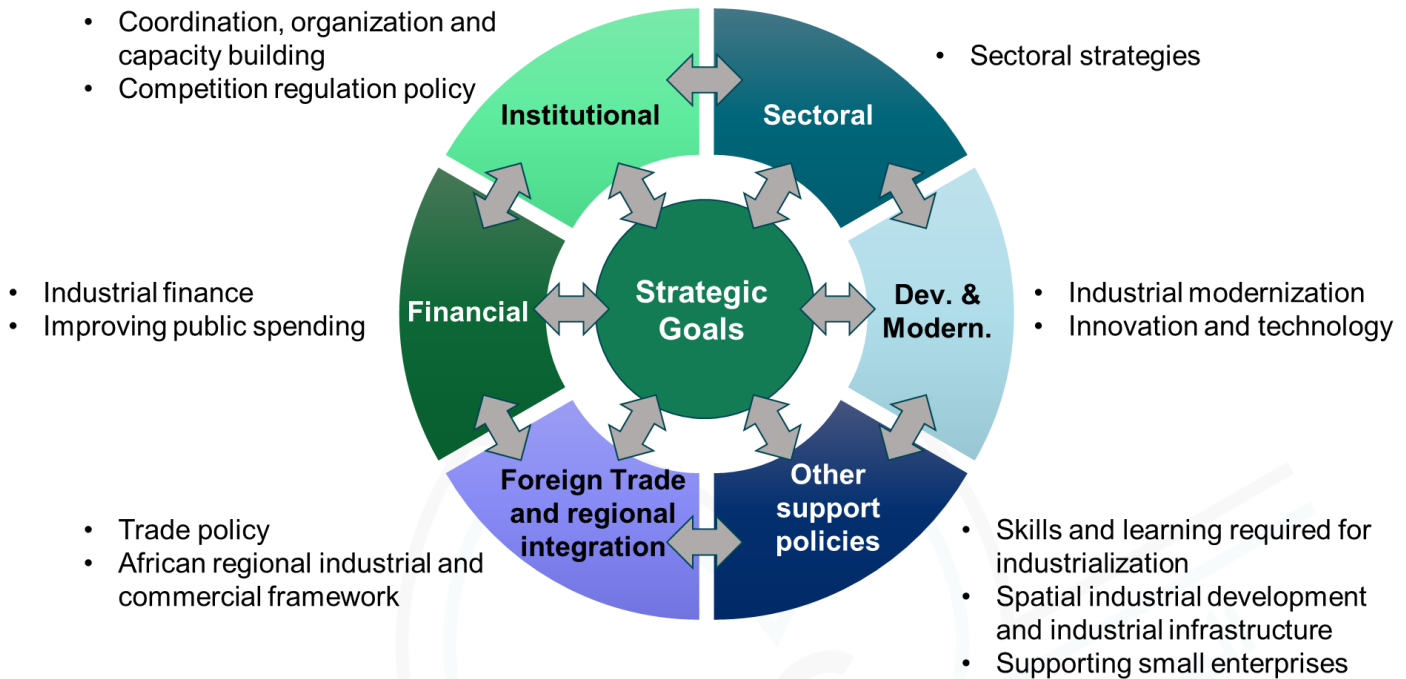
Source: ECES analysis drawing on the industrial development strategy in South Africa.

Figure 2. Linkages between the industrial development strategy and other government policies



Source: Prepared by ECES drawing on the strategy for industrial development in South Africa.

Figure 3. Integration between all strategic pillars within the industrial development strategy



Source: Prepared by ECES drawing on the strategy for industrial development in South Africa.

Fourth: The industrial development strategy in Egypt

The following are the general pillars of the industrial development strategy in Egypt and its implementation programs, which are extracted from a number of government documents that dealt with aspects of the topic⁷ even if it didn't match each document separately-. The last industrial development strategy announced by the Ministry of Trade and Industry was launched in 2016 under title: "The Strategy of the Ministry of Trade and Industry to Promote

⁷These documents include the Industrial Development Strategy issued by the Ministry of Trade and Industry in 2016, the five-year medium-term plan for sustainable development 2018 / 2019-2021 / 2022, the annual plan for the year 2020/2021 issued by the Ministry of Planning, the national strategy and the executive plan for small and micro enterprises and entrepreneurship.

Industrial Development and Foreign Trade 2016-2020." In view of the lack of clarity concerning the implementation of that strategy, we focused here on the programs included in the annual plan for the year 2020/2021 issued by the Ministry of Planning, as they reflect what is being implemented on the ground.

The industrial development strategy rests on seven basic strategic pillars, summarized in Table (3).

Table 3. Summary of the industrial development strategy in Egypt

| Pillar | Implementation programs |
|--------------------------------|---|
| Industrial development | <ul style="list-style-type: none"> ▪ Encouraging industrial investment: by expanding the granting of industrial licenses and establishing industrial complexes and industrial zones. ▪ Improving the competitiveness of the industrial sector: through implementation of a number of programs aimed at increasing the quality and compatibility of the Egyptian products with international standards, and expanding the approved after-sales service centers. ▪ Exploitation of idle production capacities: by recovering stalled factories and projects and expanding civilian production of military factories after restructuring them and using their surplus productive capacities to meet the needs of the local market. |
| Promoting foreign trade | <ul style="list-style-type: none"> ▪ Increasing exports competitiveness: by increasing the number of companies benefiting from the export support program |

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| Developing technical education and vocational training system | <ul style="list-style-type: none"> ▪ Development of the industrial training system: by developing training centers, and raising the professional competence of trainers. |
| Small enterprise development | <p>The National Strategy and action Plan for Medium, Small, Micro Enterprises and Entrepreneurship (2018-2022) rests on the following pillars:</p> <ul style="list-style-type: none"> ▪ Legal and regulatory environment ▪ Access to finance ▪ Encouraging entrepreneurship ▪ Exports and integration into local and global value chains ▪ Business development services |
| Improving the business environment | <ul style="list-style-type: none"> ▪ Tax and customs reform ▪ Administrative and institutional reform ▪ Industrial finance ▪ Dispute resolution ▪ Protecting the national industry |
| Restructuring public business enterprise sector companies | <p>Inventorizing unused assets and starting procedures for exchanging them against debts of these companies for several bodies, as well as listing some companies' shares on the stock exchange.</p> |

Source: ECES analysis based on the five-year medium-term plan for sustainable development 2018 / 2019 - 2021 / 2022, and the annual plan for the year 2020/2021.

Fifth: Shortcomings of the Industrial Development Strategy

At the outset, it should be noted that despite the similarity of government documents that addressed the general features of the industrial development strategy, by comparing the details of what was mentioned in each document, it was noticed that there are some differences between these documents, especially between

the five-year medium-term plan for sustainable development 2018/2019-2021/2022, and the annual plan issued by the Ministry of Planning and Economic Development, which is supposed to be an annual action plan for what was mentioned in the five-year plan. More specifically the five-year plan included a number of programs that are not reflected in the annual plan, and the latter also included some elements that were not mentioned in the five-year plan, in addition to the difference in the level of detail contained under each of the pillars—ranging from the very general and absence of any performance indicators in some pillars to the presence of specific quantitative performance indicators in other pillars. This makes it difficult to determine the actual pillars of the strategy, let alone follow up on its implementation which ultimately reflects the existence of a defect in the foundations on which the industrial development strategy in Egypt rests.

In what follows we will present the shortcomings in the industrial development strategy in Egypt by referring to the experience of South Africa with regard to the pillars and the foundations necessary for the success of the strategy. We will conclude with some specific and important remarks regarding the method of dealing with the industrial development strategy in Egypt.

5-1 The Implementation foundations upon which the strategy is based

In contrast to the industrial development strategy in South Africa, which has all the foundations necessary for successful implementation as mentioned previously, the industrial development strategy in Egypt suffers from almost a complete absence of all of these foundations, as shown in Table (4) below.

Table 4. Availability of the foundations for successful implementation in Egypt's industrial development strategy

| Foundations for success | Industrial development strategy in Egypt |
|--------------------------------|---|
| Dynamism | The Egyptian strategy does not have the required dynamism, which can be attributed partly to the absence of general guidelines and principles that ensure the continuous review of the action plans and related programs in light of local and global developments as well as the progress achieved in implementing the strategy and the developmental stage that the country is going through, thus depriving the strategy of the required dynamism. |
| Comprehensiveness | Although the industrial development strategy in Egypt includes most of the main titles that should be included in any industrial development strategy, it still lacks comprehensiveness. It lacks some important dimensions as will be shown in Table (5). In addition, each pillar does not address all |

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| | <p>associated aspects, with the focus falling mainly on what is under the direct umbrella of the Ministry of Trade and Industry, as well as the severe weakness in the policies at the sectoral level due to the absence of sectoral strategies.</p> |
| <p>Integration</p> | <p>There is no complementarity or interdependence between the various pillars of the strategy. Rather, they are treated as isolated islands. There is also no complementarity between the industrial development strategy and the rest of the development strategies adopted by the government, especially with regard to technical education, vocational training and scientific research, the agricultural and mineral development strategies, and the state's plans for roads, infrastructure, and other aspects.</p> |
| <p>Information</p> | <p>Other than the chronic challenges facing Egyptian industry, it is not clear to what extent the strategy relies on accurate information on the various components of the industrial system, especially in the absence of measurable performance indicators for many programs.</p> |
| <p>Supporting frameworks</p> | <p>Institutional framework⁴</p> <p>Limited efforts to develop the institutional framework (mostly efforts towards mechanization and reducing the time required to complete procedures without institutional reforms)⁵ with insufficient coordination whether between the bodies affiliated to the Ministry of Trade and Industry, or between the</p> |

⁴For more details about institutional reform in Egypt, see: Abd al-Latif, Abla. 2020. Institutional Reform to Save the Egyptian Economy: The "Silver Lining" of Covid-19. Economic Issues Series, The Egyptian Center for Economic Studies.

⁵Automation not digitalization.

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| | <p>Ministry of Trade and Industry and other Ministries and bodies.</p> <p>Funding Framework:</p> <ul style="list-style-type: none"> ▪ General financing that is not linked to the targeted sectors, or to achieving specific goals, in which the Ministry of Finance plays a much larger role than the technical ministries, unlike what is common in other countries.[¶] ▪ Lack of transparency regarding the time frame of funding, and its terms. ▪ Absence of monitoring and evaluation regarding the effectiveness of this funding. ▪ Weakness and lack of continuity of funding for some programs, which weakens their effectiveness (for example, the Export Support Program).[¶] |
| <p>SMART</p> | <p>Although there are annual plans, there is a big difference between implementation programs regarding the existence of specific, measurable targets and to what extent it is realistic; and none of them determines the implementing agency. Although there are some performance indicators for some programs, they are limited to the programs that are related to the annual plan of the implementing agencies, such as the case for land allocation and the number of trainees in the training centers, etc. As for the vast majority of programs, measurable performance indicators are absent and in all</p> |

[¶]For example, with regard to the Export Support Program, the Ministry of Trade and Industry has no control over the financial allocations for the program. The Ministry of Trade and Industry receives these allocations periodically upon a request submitted to the Ministry of Finance to obtain its approval regarding these allocations and disbursement.

[¶] For more details, see Views on the Crisis, Issue No. 26, the Export Support System.

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| | <p>cases, the performance indicators are not used in developing programs and policies.</p> <p>This is ultimately reflected in the repetition of some targets from one action plan to another, as is the case with the targets for industrial zones.[^]</p> |
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Source: ECES Analysis.

5-2 Comparison between the pillars of the industrial development strategy in Egypt and South Africa

Comparing the main pillars of the industrial development strategy in both Egypt and South Africa, reveals the absence or extreme weakness of some important pillars in the Egyptian industrial development strategy, specifically those related to scientific research and innovation, and the provision of the necessary skills for industrial development and institutional development. As for the rest of the pillars, despite being addressed in the industrial development strategy in Egypt, they have many shortcomings that limit their effectiveness, as shown in Table (5).

[^]For example, in both the annual plan for the year 2019/2020 and the annual plan for the year 2020/2021, the same targets appeared in relation to industrial zones without clarifying what was achieved on the ground in the year 2019/2020.

Table 5. Comparison between the pillars of the industrial development strategy in Egypt and South Africa

| Pillar | South Africa | Egypt |
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| Trade policy | <ul style="list-style-type: none"> ▪ Diversity in trade policy tools to serve the goals of industrial development and increase exports ▪ Coordination between trade and sectoral policies ▪ It includes policies related to foreign direct investment in order to create the necessary linkages with other policies. | <ul style="list-style-type: none"> ▪ Weak trade policy. On the part of the customs tariff, rigidity in the use of the customs tariff is noted, which results in either exaggerated protection that negatively affects quality, or leads to an increase in imports and the inability of the local product to compete. ▪ With regard to the tools for stimulating exports, they are limited to the export support program, which has not changed despite its shortcomings,⁹ as well as the lack of distinction between the different sizes of the establishments and their geographic location, when dealing with the problems faced by exports ▪ The Trade policy does not address foreign direct investment as in South Africa, but it is dealt with sporadically and in an unintegrated manner. |
| Skills and education for industrialization | <ul style="list-style-type: none"> ▪ Seeks to achieves integration between | <ul style="list-style-type: none"> ▪ The almost complete separation between the industrial development strategy and state's efforts |

⁹For more details, see Views on the Crisis, No. 26, Export Support System.

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| | <p>industrial development and the outputs of technical education and the vocational training system.</p> | <p>to develop technical education and vocational training. Despite reference to the technical education and vocational training development program within the framework of the five-year plan, implementation is restricted to the development of a number of vocational training centers affiliated to the Ministry of Industry, and it is not clear to what extent the industrial community is consulted to determine its needs.</p> |
| <p>Industrial modernization</p> | <ul style="list-style-type: none"> ▪ It is based on bridging the gaps with best practices at the local and international levels. <p>It takes into account all dimensions of industrial modernization:</p> <ul style="list-style-type: none"> - Modernization within companies (products, production processes and the value chain), - technological infrastructure | <ul style="list-style-type: none"> ▪ It is carried out through a limited number of programs implemented through the IMC, without a specific plan, a specific direction nor a link to the targeted sectors, as these programs are implemented at the request of the establishment, and the extent of their effectiveness depends on the efficiency of the implementation process. ▪ Limited interest in specialized technological infrastructure and weak funding thereof. |

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| | <p>(at the sectoral level),</p> <ul style="list-style-type: none"> - standards and quality. ▪ Ensures the provision of the necessary funding for the specialized sectoral infrastructure. | |
| Innovation and technology | <ul style="list-style-type: none"> ▪ Full coordination between the industrial development strategy and the national research and development strategy, and cooperation between the two concerned ministries in this regard. ▪ Ensures the commercial application of inventions. ▪ Strengthens the law on protecting intellectual property rights. | <ul style="list-style-type: none"> ▪ Despite reference to the program of encouraging innovation and linking industry with scientific research within the framework of the five-year plan, what has been mentioned is very weak and has no reflections on the annual plan. ▪ Weak intellectual property rights protection system. |
| Competition policy and regulation | <p>Competition policy is an integral part of industrial policy.</p> | <p>The complete absence of this pillar in the applied industrial development strategy, and dealing with competition and anti-trust policy separately from the strategy.</p> |

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| <p>Leveraging public expenditure</p> | <ul style="list-style-type: none"> ▪ Linking public expenditure to industrial development targets ▪ Developing innovative tools to benefit from public expenditure in achieving industrial development goals. ▪ Adequate financing to achieve industrial development goals. | <ul style="list-style-type: none"> ▪ Fiscal policy is dominant in determining the targets for industrial development. ▪ Weak funding from the state budget. ▪ Weak preferential treatment for local products in government contracts, which operates through Law No. 5 of 2015. There is an urgent need to review this law, especially in light of its failure to achieve the desired objectives.¹¹ |
| <p>Spatial and industrial infrastructure¹¹</p> | <ul style="list-style-type: none"> ▪ There is a close link between regional development plans and spatial industrial development ▪ Use of industrial infrastructure as a means to achieve spatial industrial development. ▪ Supporting different types of | <ul style="list-style-type: none"> ▪ Lack of coordination between regional development strategies and plans for development and distribution of industrial zones, and the provision of necessary funding for their development. ▪ Industrial development is limited to establishing industrial zones or complexes and not adopting other types of industrial infrastructure, such as specialized |

¹¹This is evidenced by the huge increases in imports by government agencies of locally-produced products.

¹¹Spatial industrial development is intended to achieve industrial development in traditional industrial clusters or in less developed areas, which can be developed through encouraging industrial activity therein.

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| | <p>industrial infrastructures, such as industrial development zones, industrial parks, hi-tech and science parks, and catalytic project-specific infrastructure such as cold chain facilities to unlock particular types of agro-processing activities</p> | <p>industrial zones and advanced technological cities with production and service links.¹²</p> <ul style="list-style-type: none"> ▪ Multiple authorities responsible for industrial zones.¹³ ▪ Attention to public infrastructure only, and insufficient interest in providing infrastructure in the industrial zones located in the various regions, and thus inability to attract investments therein due to incomplete utilities.¹⁴ |
| <p>Support for small enterprises</p> | <p>Working towards full coordination between all policies in achieving the targets related to small enterprises.</p> | <p>Despite the attempt to unify efforts to serve medium, small and micro enterprises through the issuance of Law No. 152 of 2020, there are still some apparent weaknesses in the system supporting this group of enterprises in a manner that may limit the effectiveness of this law. At the forefront of these elements is the lack of clarity of coordination mechanisms between the medium, small and micro Enterprise Development Authority and others entities that adopt programs for developing</p> |

¹²The existing technological cities are considered incomplete projects due to the absence of links with production and service sectors.

¹³These entities include the Industrial Development Authority and the Urban Communities Authority and Governorates.

¹⁴Failure to complete utilities reflects poor coordination with the responsible authorities.

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| | | <p>medium, small and micro enterprises, as well as the absence of a detailed database on these enterprises which is a prerequisite for all policies targeting these enterprises.</p> <p>Finally, despite the consistency of the definition of medium, small and micro enterprises with the definition of the central bank, the criterion of employment was dropped from it, which practically changes the definition. Further, the fact that the law indicated specific values for turnover and paid-up capital, presents a challenge for the definition whenever the central bank changes those values. This leads to the inability to establish a uniform classification and to monitor the change in the sizes of enterprises.</p> |
| <p>Regional industrial and trade framework</p> | <ul style="list-style-type: none"> ▪ Establishing an integrated framework for industrial and trade cooperation with the African continent, which is the region on which South Africa focuses. ▪ Promoting industrialization | <ul style="list-style-type: none"> ▪ Sporadic, incomplete programs that are limited to the trade side, with absent industrial and investment aspects, and the associated incentive policies to enhance cooperation with Egypt's regional extensions. |

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| | and economic integration within the framework of regional value chains. | |
| Coordination, organization and capacity building to implement the industrial development strategy | <ul style="list-style-type: none"> ▪ Full realization that implementing an effective industrial development strategy is not solely the responsibility of the administration in charge of industry and trade within the government. Therefore, coordination between all government departments is urgently needed. ▪ Strengthening governmental regulation and capabilities, especially in the Ministry of Trade and Industry. | <ul style="list-style-type: none"> ▪ The industrial development strategy is prepared and implemented by the Ministry of Trade and Industry and its agencies alone, with minimum coordination with other ministries. This is one of the main reasons behind the failure of various programs to achieve its targets. ▪ Limited institutional development within the government in general, with its different aspects including, for example, restructuring of departments and strengthening the workers' capabilities at all levels (central government and local administrations), and achieving complementarity between the mandates of various government agencies. ▪ Limited institutional development within the Ministry of Trade and Industry, especially with regard to restructuring of subsidiary bodies and radical change in their |

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| | | <p>method of operation in order to enable them to fulfill their roles in achieving industrial development.</p> <p>For example, despite the fact that the Industrial Development Authority Law No. 95 of 2018 granted it many mandates, foremost of which is the preparation of studies and plans for industrial development sectorally and geographically and following up on and encouraging their implementation, the activities of the Industrial Development Authority are still concentrated in granting licenses and establishing industrial zones rather than other aspects related to Industrial development. It also performs its role in isolation from the activities of other agencies within the Ministry, and other Ministries.</p> |
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Source: ECES analysis.

5-3 Specific observations regarding the industrial development strategy in Egypt

Although there is no explicit reference to specific principles on which the strategy is based, implementation shows that the strategy adopts the basic principle of applying partial and temporary solutions for some problems and challenges (firefighting) and facing some crises that appear as a result of evolving global or local situations. This results in the following:

- Absence of a compass, what is being implemented on the ground does not lead to reaching the future vision for the industrial sector, which was identified in the 2030 Strategy.¹⁰
- Persistence of the root causes of the chronic challenges plaguing the industry.
- Emergence of new problems as a result of focusing on partial and timely solutions that are separate from the general framework.
- Although there are some efforts towards improving the methodology for formulating and implementing the industrial development strategy, these attempts are still marred by many shortcomings. For example, with regard to determining the sectors that will be focused on, which

¹⁰This vision needs to be revised as it is developed separately from the visions of other sectors in the country.

are shown in Table (6), although the main goal of identifying these industries is to try to overcome one of the main challenges facing the Egyptian industry, which is the weak added value and its structural rigidity, this goal is not expected to be truly achieved on the ground given the absence of general rules governing the development of sectoral development strategies. Thus it is expected that only limited partial changes will take place for the following reasons:

- Weak sector selection criteria: These criteria are characterized by the following:
 - *Unidirectional and overlapping standards:* For example, when identifying the sectors which the Coronavirus has shown the need for accelerating its development, it is observed that the focus has been on industries in which an increase in demand appeared only, with no attention paid to problems that the same industry or other industries suffer from even if solving these problems will effectively contribute in increasing production, employment and export.
 - *Extremely general standards:* as each standard applies to a very large group of industries, and thus the reasons behind choosing those industries over

the other industries to which the standard applies are not clear.

- Absence of any reflection of this sectoral focus on the other pillars of the strategy. This is a direct result of the complete absence of sectoral development strategies that are based on detailed studies addressing the policies required in other pillars of both the industrial development strategy and the government program in general. An exception is the automotive sector development strategy, which is paid particular attention.

Table 6. Sectoral focus of Egypt's industrial development strategy

| Standard | Industry |
|--|--|
| Sectors which the Coronavirus has demonstrated a need for accelerated development | <ul style="list-style-type: none"> ▪ Pharmaceutical industries, curative and preventive products. |
| Industries that satisfy domestic demand as an alternative to imports | <ul style="list-style-type: none"> ▪ The textile industry ▪ Engineering industries ▪ Food industries |
| Industries that provide production requirements for the industries to be developed (deepening local manufacturing) | <ul style="list-style-type: none"> ▪ Extraction of essential oils from fragrant plants ▪ Manufacture of billets for iron and steel factories, roof insulation materials and glass fibers ▪ Solar panels and cells |

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| | <ul style="list-style-type: none">▪ Electric braids and castings for the automotive industry▪ Software and microelectronic components manufacturing |
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Source: Ministry of Planning and Economic Development, the third-year plan (2020/2021) of the medium-term plan for sustainable development (2018/2019-2021/2022)

Sixth: What is required to upgrade the industrial development strategy?

- Adopting the principles governing the formulation of the industrial development strategy in South Africa.
- Rather than using promotional tools for media objectives, they should be devoted to driving economic agents to get acquainted with the policies and incentives adopted by the state in implementing its various programs.
- Effective communication with the private sector in the sense of listening to problems and adopting solutions in an integrated manner, given that the private sector is primarily responsible for implementing the industrial development strategy as well as for reaching the required employment targets.
- Dealing with finance as a tool for implementing the industrial development strategy rather than as a determinant of this

strategy or as a factor interfering with its objectives. This calls for a complete review of the current role of the Ministry of Finance.

- Abandoning the policy of extinguishing fires (partially solving problems) and dealing with the roots of these problems in an integrated manner, such as the problem of providing land and infrastructure.
- Establish institutional linkages between the various state agencies so that the industrial development strategy is properly implemented.
- Distinguish between the future vision of the Egyptian economy, the role of industry in it and the industrial development strategies that are followed to achieve this vision, which are characterized by a degree of sustainability, and between the implementation policies and programs that are reviewed annually and amended in accordance with local and global developments.¹⁶
- Following up on the implementation of the industrial development strategy, not only by those responsible for formulating and implementing it, but also by the industrial community, who are the pulse of this sector on the ground.

¹⁶To learn about some of the implications of global developments on the industrial development strategy, see:

Mohieldin, Mahmoud. (2021). *Industrial Policy in a Fast-Changing world: Export Orientation, Digitalization, Localization and Finance*, Egypt Can.

Appendix

National Industrial Policy Framework in South Africa (NIPF) and Action Plan

The national industrial strategic framework focuses on identifying all the obstacles facing the industry as a whole, as well as the sectoral constraints, in addition to identifying the opportunities available to the industry to take advantage of them, through 12 strategic programs as follows:

SP1: Sector Strategies

1. Sector Selection:

- Although the NIPF does not attempt a definitive prioritization of sectors, Due to budget and human resources constraints, selection of sectors is a must, and the aim is to identify approximately five high impact sectors. This selection is based on a consistent and coherent set of economic and institutional criteria. Greater priority is given to sectors that are:
 - capable of generating the highest level of employment and growth, especially in new or expanded non -traditional tradable activities.

- sectors that will move south Africa closer towards a technology sophisticated and knowledge- driven economy in the long- terms.
 - Sectors that exhibit significant positive external economies if their development constraints are relieved or opportunities leveraged
 - The economic benefits of developing the sector should outweigh the cost of government support.
- Supported sectors fall under one of the following sectoral groups:
 - Natural Resources based sectors
 - Labor intensive sectors
 - Medium Technology sectors
 - Advanced Manufacturing Sectors
 - Tradable services

۲. Principles for developing sectoral strategies

- The NIPF sets a number of principles and processes through which sectoral strategies are developed, strengthened and prioritized, these principles and processes are:

- A thorough, evidence based and realistic economic analysis of the sector that includes a robust self-discovery process with the main stakeholders in business, labor and civil society.
- The sustainability and viability of the sector in the medium to long term.
- An economic cost- benefit analysis of alternative policy responses to the constraints and opportunities identified.
- An assessment of institutional considerations such as ease or difficulty of organizing the sector to address these constraints, government capacity required to address them, quality and depth of leadership of the business community responsible for implementing the strategy.
- An identification of the intra-government coordination mechanism required to implement the strategy.

SP2: Industrial Financing

1. Principles guiding industrial financing

- Industrial financing must focus on supporting substantively new- particularly non- traditional, including support for entirely new goods, new services, new forms of production, as well as expansive growth of existing non-traditional

tradable activities through relieving some fundamental constraints.

- The financing should aim at generating significant spillover and demonstration effect.
- Financing should be conditional on the achievement of measurable benchmarks by recipient firm, and it should at the same time be transparent and easy to access as much as possible with a minimum uncertainty and regulatory costs for applicants
- An explicit subset clause and review process must be incorporated into the program
- Financing needs to be of sufficient scale to achieve the necessary structural change that is targeted.
- Where appropriate industrial financing will be customized to address specific constraints and opportunities within the disciplines to the WTO rules

۲. Forms of industrial financing

- Generic programs: that is, open to self-selection basis to all firms that meet the criteria of the program
- Customized financing: to meet the specific needs of sector-specific key action plan

३. Streams of industrial financing

- Investment (including sector- specific programs)
- Industrial upgrading (including industrial -infrastructure)
- Innovation and technology
- Trade facilitation
- Small and medium enterprises (including co-operatives)

SP3: Trade Policy

- Improving non- traditional export performance- particularly in more sophisticated, value added products- is an important objective of industrial policy.
- Tariff policy should be decided primarily on a sector-by-sector basis dictated by the sector's needs
- Additional refinement of tariffs will focus on two areas: tariffs on upstream input industries will be reviewed and may be reduced or removed considering issues like domestic production capabilities and the levels of global distortions in these products. Tariffs on downstream industries will be treated more carefully particularly those that are strategic from an employment or value-added perspective.
- In boosting the exports, the sector strategy will need also to address constraints to exports

- More targeted FDI promotion driven by opportunities identified from sectoral strategies, as well as a more focused export promotion strategy based on detailed analysis of trade opportunities.

SP4: Skills and education for industrialization

- There is a need for much greater coordination between the development and implementation of sector strategies and the corresponding sector education and training authorities
- In the medium to long term, there is a need for much stronger alignment between the education system and the industrial policy.

SP5: Competition policy and sector regulation.

- There is a need to strengthen competition policy in order to address some of the unique features of the South-Africa economy.
- A number of sector regulation have been put in place to oversee pricing behavior for specific utilities such as energy and telecommunication
- It is necessary that sector regulators be adequately resourced and empowered to ensure cost effective inputs.

SP6: Leveraging public expenditure

- Large- scale plans are being implemented to both upgrade and install new infrastructure
- A major opportunity therefore arises to leverage the public expenditure, by ensuring that domestic firms are sufficiently competitive to capture significant portions of it, without compromising price and quality.
- A range of coordination needs to take place: between public procurement managers and potential suppliers; amongst firms that can potentially form supply consortia; and between government departments.

SP7: Industrial upgrading

- ***The first element of an Industrial Upgrading Programme is a Manufacturing Excellence Programme (MEP).***

This is aimed at providing support for a variety of firm-level upgrading efforts, including product, process and value chain upgrading. Central to any MEP is support for firm benchmarking against peers in their industry, both domestically and internationally. Systematically measuring and benchmarking various aspects of firm-level efficiency is a fundamental requirement in order to make ongoing improvements.

- ***The second component of industrial upgrading is the technological infrastructure that supports it.***

Due to the broad range and sector-specific nature of the facilities that meet these criteria, it may be desirable to establish a technological infrastructure fund, with broad guidelines, that is able to support a range of facilities. The types of facilities that would be supported would include: tooling and casting facilities, sector-specific skills centers, where fixed costs of equipment are too high for individual firms to invest, and centers for research excellence.

- ***The third part of an industrial upgrading programme: the national standards, quality assurance, accreditation, and metrology (SQAM) technical infrastructure***

SP8: Innovation and Technology

- Tracking global technology trends and relating them to areas where South Africa could lead with respect to proprietary technologies or where it should focus on technology transfer, adoption and adaptation. The Department of Science and Technology's National Research and Development Strategy sets the overarching framework for technological interventions, particularly on the research side of R&D.

- increased support measures for process and product innovation, and commercialization of technologies. There is a need for greater coherence and collaboration between the Departments of Trade and Industry and Science and Technology in developing such support measures. The establishment of a strong national agency to administer and promote innovation support programs could give additional weight to the system
- It is important to strengthen systems to protect and develop South African intellectual property (IP) and to encourage its commercialization domestically in favor of licensing abroad.

SP9: Spatial and industrial infrastructure.

- An Industrial Infrastructure Program needs to support a range of types of infrastructure, such as industrial development zones, industrial parks, hi-tech and science parks, and catalytic project-specific infrastructure such as cold chain facilities to unlock particular types of agro-processing activities.
- A closely related initiative is the ongoing work in relation to the development of a Spatial Industrial Development Strategy (SIDS) for the promotion of regional industrialization outside the three traditional metropolises

SP10: Small Enterprise Support

- Small enterprise support will focus on a combination of improving 'supply side' factors such as finance and technical support, together with finding ways to strengthen market opportunities for small enterprises, including cooperatives.
- The institutional infrastructure for the development and support of small enterprises has also largely been put in place since 1994,
- The availability of finance via Development Finance Institutions will assist firms in leveraging market-based finance.
- At a broader government level work is being coordinated by the Presidency to review the regulatory burden experienced by small enterprises and to make policy proposals on how to limit the amount of red tape small enterprises face in both their start-up and operational stages.
- The revision and strengthening of Competition Policy outlined above will also have important implications for small- and medium- sized enterprises, particularly those engaged in downstream beneficiation.

SP11: Regional and African Industrial and Trade Framework

- Regional and African Industrial and Trade Framework will be developed in order to take advantage of the opportunities arising from growth on the continent, as well as to promote greater levels of continental industrialization and economic integration. This includes the investigation of the development of regional value chains, based on each country's actual or potential advantage in different value chain segments.

SP12: Coordination, capacity and organization.

Three main areas are singled out for attention: intra-governmental coordination at the national level; intra-governmental coordination between the three spheres of government; and strengthening of organization and capacity within the Department of Trade and Industry in particular.

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