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REPORT OF THE ECONOMIC AND SOCIAL COUNCIL

Note verbale dated 29 November 1977 from the Permanent Representative
of Egypt to the United Nations addressed to the Secretary-General

I

The Permanent Representative of the Arab Republic of Egypt to the United Nations presents his compliments to the Secretary-General of the United Nations and with reference to the report of the Secretary-General on the adverse economic effects on the Arab States and peoples resulting from Israeli continued occupation of their territories (A/32/204), prepared in compliance with General Assembly resolution 3336 (XXIX) of 17 December 1974, has the honour to point out that the report referred to above does not cover all losses suffered by Egypt as a result of Israeli continued occupation of Egyptian territories. The following are examples of losses which are not covered by the report:

1. Losses incurred before the June 1967 aggression, including losses resulting from the Israeli campaign of 1956 in Sinai.
2. The damage caused to Egyptian property in the Gaza Strip.
3. Losses incurred in Sinai, with the exception of partial estimates of losses pertaining to the Sinai oilfields. For instance, losses resulting from excessive reduction in exploitable oil reserves due to exceptionally high rates of exploitation of the oil wells during occupation were not estimated.
4. Civilian and military human losses. These losses could never be measured in monetary terms. However, the impact of these losses on the Egyptian economy may be only fractionally represented by the cost that would be involved in rearing, educating and training the same number of lost citizens, with similar qualifications and skills.
5. The consequences of material military losses, including repayment of military debts which constitute a heavy burden on the Egyptian economy.

6. The loss of and damage to items of national, religious and cultural heritage, such as ancient mosques and monuments, particularly in the devastated Suez Canal Zone, which could not be evaluated in monetary terms.
7. Losses incurred by certain segments in the private sector, including those of retail trade, crafts, small industries and the traditional farming sectors.

II

The Permanent Representative of the Arab Republic of Egypt to the United Nations wishes further to emphasize that, more importantly, the full impact of the Israeli aggression and occupation on the Egyptian economy has not been adequately reflected in the report. In this context, it is important to note that the study prepared by the Egyptian Institute of National Planning and submitted to the Secretary-General has emphasized the following:

1. The seven fiscal years 1959/60-1966/67, immediately preceding the 1967 armed attack, exhibited a high degree of economic performance which was oriented towards establishing a solid economic basis for further expansion in agricultural and industrial production. During that period, the gross domestic product (GDP) of Egypt increased at an annual rate of 5.9 per cent in real terms and the realized investment averaged 18 per cent of GDP. Furthermore, a great part of this investment was directed to large development projects which, by their very nature, do not yield immediate returns. Typical examples of these projects are the Aswan High Dam, the Iron and Steel Complex and land reclamation, chemical industries and electrification projects. Thus Egypt was practically reaching its "take-off" phase of development and moving into the "self-sustained" phase at significantly higher rates of growth than the average rate of 5.0 per cent realized during 1959/60-1966/67.
2. The 1967 armed attack, however, dealt a serious blow to the country's economic prospects and subjected its economy to various dislocations and disruptions. Hence, the economy was transformed into a war economy as the bulk of resources were directed to meet defence requirements. Exports dropped significantly and the rate of capital formation was reduced to the bare minimum. This situation led to a very slow rate of growth of GDP in the aftermath of the military occupation of Egyptian territories.
3. Two dramatic consequences followed from the diversion of resources to defence and military expenditures, as necessitated by the Israeli military occupation and the war-like conditions which have prevailed ever since:
 - (a) Replacement of assets had to be postponed considerably. The resulting deterioration of public utilities and all other forms of infrastructure in Egypt is a well-known fact. The negative effect upon economic activities and all aspects of life is being felt by all, including foreign investors who are being encouraged by all efforts to invest in Egypt.

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Inadequate replacement was also imposed upon industry and other economic sectors. A glaring example here was the textile industry, the largest and most important industry in Egypt. As a result of the imposed replacement delays, plans for the complete rehabilitation of textile factories are now being undertaken at tremendous costs in co-operation with the International Bank for Reconstruction and Development. Similarly, the lack of maintenance and replacement in the case of the Kima factory, the biggest plant for the manufacture of fertilizer in Egypt, led to its temporary stoppage and complete overhauling, and affected adversely the availability of fertilizer and increased Egypt's dependence on imports to satisfy its needs.

(b) The implementation of many of the planned projects was either postponed or stretched in time. For example, plans for land reclamation and cultivation were both delayed and extended over longer periods. Most of the complementary projects to the High Dam were postponed. Special mention should be made of the drainage scheme, a necessary corollary to expanded regular irrigation, which suffered long delays resulting in a decline of land productivity and increase of salinity. Another example is the non-implementation of electro-chemical plants producing, inter alia, more fertilizer. Egypt, according to pre-1967 plans, was to become a net exporter of fertilizer in the early seventies. Due to postponements and delays in the establishment of the new fertilizer plants, Egypt is still, and will continue to be at least till the end of the 1970s, a net importer of fertilizer.

Postponement of the implementation of the above-mentioned projects definitely had its effect on increasing the acuteness of the food shortage Egypt had been suffering lately. The decline in the growth of agricultural production reduced agricultural as well as agro-industrial products available for exportation, while substantially increasing the quantity imported at the very time when the price of imported foodstuffs was skyrocketing. The effect upon Egypt's balance of payments has been drastic and the deficit in its current transactions with the outside world kept rapidly mounting.

Postponement of projects in other fields, such as transportation, communication, the production of building materials also had its effects in the creation and augmentation of severe shortages.

4. The low rate of growth of the economy resulting from the Israeli occupation and the prolonged state of "neither-war-nor-peace", led to an extremely high rate of temporary or permanent emigration from Egypt, compared with pre-1967 rates. Due to the disproportionately high percentage of qualified personnel and skilled workers among the migrants, emigration from Egypt has a serious negative effect upon Egypt's economy and development.

5. The continued occupation and prolonged "neither-war-nor-peace" conditions have also caused a number of socio-economic problems. Enlisted university graduates had to be kept in the armed forces for several years. In many cases they found it difficult to maintain their educational levels. Enlisted agricultural workers lost their desire to return to farming and developed interest in becoming civil

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servants, thus confronting Egypt, for the first time in its history, with the possibility of facing agricultural labour shortages coupled with a substantial increase in disguised unemployment in government and local administration. Social and economic dislocation has been particularly acute in the case of the population of the Suez Canal Zone, which had to be evacuated from the area and relocated in other parts of the country. This population amounted at the time of evacuation to about 1.1 million people.

6. The rehabilitation of the Egyptian economy and the re-establishment of its potentials, proves to be very costly, as demonstrated by the reconstruction of the devastated Suez Canal Zone.

In addition, the restoration of the infrastructure has been recognized to be so vital that close to 40 per cent of total investment has been allotted to this objective in recent years at the high cost of a staggering increase in Egypt's external indebtedness.

III

It was such considerations as those mentioned under points 1 to 6 above (section II) which necessitated a macro-economic approach in estimating losses resulting from Israeli aggression and occupation, in order to complement the sector-by-sector estimates (paras. 67 to 70 of the Secretary-General's report) which, by their very nature, cannot measure adequately the over-all impact on the Egyptian economy.

To arrive at a dependable macro-economic estimate, a realistic mathematical model was selected for the technical reasons which are explained in detail in annex 3-1 of the study submitted by the Egyptian Institute of National Planning. The model considers that the adverse economic effects of the Israeli aggression and occupation would be felt at least until 1983, whereas the report of the Secretary-General confines itself only to the period ending in 1975. It is, of course, obvious that the adverse effects on the national economy are not confined to the period between the June 1967 aggression and the year 1975, since the losses arising from destruction of material and human resources cannot be conceived as a once-and-for-all type of adverse effect. For example, the assets lost would have generated income for as long as they remained usable, i.e., for a period equal to their productive life. To take into account only their potential contribution to the output during a period shorter than that implies underestimation of their capital value.

Furthermore, the income forgone in a given year would have resulted in increased consumption and investment, and hence an enlarged growth capacity in the following years, both through the effect on productivity and the effect on the stock of productive capital and infrastructure. In other words, there are multiplier and accelerator effects which ought to be included in the calculation of the losses. These effects may extend over a very long period. For practical reasons, however, this period was limited in the study submitted by the Institute of National Planning to eight years only beyond 1975.

Given these considerations, the model presented by the Egyptian Institute of National Planning estimates the probable rates of growth from an equation relating the rate of growth of GDP to a number of variables which appear most relevant to the determination of its course up to 1983. Accordingly, losses are measured in terms of the sum of the differences between the GDP which could have been obtained under "normal" (i.e., non-aggression and occupation) conditions, and the "actual" GDP under the existing aggression and occupation conditions.

Since no "actual" rates of growth are yet available for the years 1976-1983, it is assumed that "actual" GDP grows at the rate of 5.5 per cent in the years 1976 and 1977, which is the average rate achieved during the period 1970-1975. During the period 1978-1983, it is assumed that GDP would grow at a rate of 8 per cent which is around the planned rate of growth for that period.

As for the "normal" GDP, the model assumes an annual 8 per cent rate as an upper limit.

All calculations were computed first in terms of 1970 prices. The total GDP differences were then converted to 1975 prices, using the Ministry of Planning estimate of price changes during the 1970-1975 period which is 32 per cent.

According to the macro-economic estimates, total losses in the GDP of Egypt for the period 1967-1983 are at the level of 29.994 billion Egyptian pounds (the equivalent of 76.785 billion United States dollars) in 1975 prices.

It should also be noted that this model underestimates the true losses since it takes account of the impact of occupation only on a limited number of the factors which determine economic growth. In addition, the impact of aggression and occupation is expected to extend beyond 1983. One obvious reason is that the lifetime of some of the destroyed assets would have extended beyond 1983, the final year in the model's calculations. Therefore, losses in GDP calculated at the macro level underestimate capital losses.

The annual breakdown of these estimates appear in the following table.

Estimates of gross domestic product for the period 1966/67-1983
(in terms of 1970 prices, million Egyptian pounds)

Year	(1) "Actual" under actual aggression and occupation conditions	(2) "Normal" in the absence of aggression and occupation	(2)-(1)
1965/66	2 410.60	(2 410.60)	00.00
1966/67	2 421.80	2 578.86	157.06
1967/68	2 345.50	2 769.18	423.68
1968/69	2 487.90	2 984.62	496.72
1969/70	2 664.00	3 223.39	559.39
1970/71	2 790.90	3 481.26	690.36
1971/72	2 937.00	3 759.76	822.76
1973	3 075.30	4 060.54	985.24
1974	3 172.60	4 385.39	1 212.79
1975	3 484.50	4 736.22	1 251.72
1976	3 676.15	5 115.12	1 438.97
1977	3 878.34	5 524.32	1 645.98
1978	4 188.61	5 966.27	1 777.66
1979	4 523.69	6 443.57	1 919.88
1980	4 885.59	6 959.06	2 073.47
1981	5 276.44	7 515.78	2 239.34
1982	5 698.55	8 117.04	2 418.49
1983	6 154.43	8 766.41	2 611.98
TOTALS:	66 071.90	88 797.39	22 725.49

(1) Ministry of Planning Figures up to 1975, GDP's for 1976 and 1977 were calculated on the assumption of 0.055 rate of growth, which is the average rate for the period 1970-1975. For the years 1978 till 1983, the assumed "actual" and "normal" rates of growth are 0.08.

	<u>LE million</u>
Total adverse effects at 1970 prices =	22,725
Total adverse effects at 1975 prices =	29,994

IV

Conclusions

The sectoral estimate of the losses incurred by Egypt is based on a partial and short-term conception of the adverse effects resulting from Israeli occupation, with each sector focusing on the losses from its own point of view. Under this approach, it is certain that some loss elements will be missed out and that the impact of the losses in one sector on the performance of the other sectors will not be fully taken into account. Hence, the sum of the sectors' losses is bound to fall far short of the real losses incurred by the economy as a whole. Furthermore, the sectoral losses are calculated for each sector up to 1975 only, a procedure which ignores the longer-term adverse effects of the Israeli occupation on the Egyptian economy.

In contrast, the macro-estimate is based on a comprehensive view of the national economy which recognizes the linkages and interrelationships among the different sectors, and considers the longer-term effects of the occupation. On the other hand, whereas a distinction is made in the sectoral approach between income losses and capital losses, no such distinction is made in the macro-approach, where all types of losses are translated into income losses.

Given these considerations, the sectoral estimates are to be considered as mere indicators of orders of magnitude. As such, they may be used as a check on the macro-estimate in the limited sense that the sectoral estimate sets a floor to the macro-estimates.

Therefore, the macro-estimate of the losses (LE 29.994 billion) is the more comprehensive estimate. As noted previously, it is, nevertheless, a rather conservative estimate, since the method used in its calculation did not take all pertinent elements into account. For instance, such factors as the rapid increase in foreign indebtedness, problems of liquidity and inflation, the deterioration in the quality of public services are not adequately considered.

The macro-estimate is also an underestimate for still another reason, namely, the losses are expressed in terms of 1975 prices, using official price indices. Such procedure is bound to cause underestimation on two accounts. Official price indices in Egypt, as is the case in many developing countries, are well known to underestimate the rate of price increase because some goods and services are heavily subsidized whereas others are subject to official pricing. Thus, using official price indices does not reveal the real cost or value of the goods and services concerned. Furthermore, losses which are expected to materialize after 1975 are also expressed in terms of the 1975 price level, and hence their magnitude is undervalued, considering the persistent inflationary trends.

It may be argued that the macro-estimate is biased upwards, since it is linked to the pre-1967 growth rates which some may consider exceptionally high and that economic growth would have slowed down in any case after the high rates of growth

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of the early 1960s. This argument is refuted because, though Egypt's growth record in the early 1960s is impressive and quite high by developing countries' standards, it was realized under no exceptionally favourable circumstances. On the contrary, it was attained under rather difficult conditions both internally and externally. Moreover, it should be remembered that the Israeli threat was always present and has caused a continuous state of alertness and mobilization right from the mid-1950s as a result of the military attack of 1954 on the Gaza Strip and the subsequent 1956 campaign in Sinai.

Hence, the growth record of the early 1960s must be regarded as a rather conservative indicator of the enormous growth capabilities which the Egyptian economy possesses.

Finally, in addition to those losses that were excluded or underestimated (some examples of which have been cited under section I, paras. 1-7), the increase in prices as of 1975 (in which prices are the present sector-by-sector and macro-estimates have been calculated for reasons of convenience and comparability), must also be taken into account.

The Permanent Representative of Egypt to the United Nations requests that this note be distributed as an official document of the General Assembly under agenda item 12.
