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The American University in Cairo
School of Global Affairs and Public Policy

**Unlocking Local Economic Potential:
Understanding the Role of Place-based Industrial
Policy in Egypt**

A Thesis Submitted to the
Public Policy and Administration Department
in partial fulfillment of the requirements for the degree of
Master of Public Policy

Submitted by: Nashwa Shaban
Supervised by: Dr. Noura Wahby

FALL 2024

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Abstract

Industrial Policy has regained prominence in both academic and practical spheres over the years, as the discourse largely shifted from an ideological debate to exploring ways for effective implementation. This renewed interest, coupled with growing concerns over regional inequality and persistent economic distress, has sparked a growing interest in Place-based Industrial Policies. Place-based Industrial Policy is an approach to industrial policy that focuses on both specific industries and locations through various policy Instruments. Similar to industrial policies, the outcomes of place-based policies have been mixed, nevertheless, evidence suggests that they often achieve the intended objectives especially in lagging and declining regions. The relevance of Place-based Industrial Policy in addressing local economic development and regional disparities makes it particularly pertinent for countries in the Global South like Egypt. The main objective of the study is to explore the extent to which Place-based Industrial Policy is adopted in Egypt, while identifying the scope of its applicability. The results of the conducted qualitative research showed that Egypt adopts a fragmented place-based approach to industrial policy, utilizing instruments such as industrial zones, free zones, special tax incentives, and special economic zones. The findings show that there are key challenges to the adoption of place-based industrial policy in Egypt, including overlapping government mandates, weak institutional capacity, and insufficient local data frameworks. In addition, the findings offer unique perspective on how centralization, when guided by input from local stakeholders and the private sector, can serve as an enabler for Industrial Policy. The study highlights the significant potential of place-based industrial policies in Egypt to address regional disparities, leverage local resources, and enhance skill development and infrastructure, warranting further investigation into their impact on Sustainable Development Goals (SDGs) at the local level.

1.Introduction

1.1 Background on Industrial Policy

Industrial Policy is undoubtedly one of the most debated concepts in academia and policy making, given its extensive history of implementation globally (Juhász, Lane, & Rodrik, 2023). The debate surrounding Industrial Policy can be traced back to the beginning of capitalism, since Adam Smith's argument against government intervention to encourage industries (Ambroziak, 2016). This dilemma of limiting or increasing the role of the state in the industrial sector has consistently resurfaced and intensified throughout history, particularly during major shocks of economic crises or setbacks. From the late 1970s to the mid-1980s, the debate was particularly relevant since the East Asian miracle fueled the research on whether Industrial Policy contributed to the success of these new economies. This period marked a significant shift in the discourse, as the topic Industrial Policy, which had been largely neglected for ideological reasons, was reconsidered in light of the East Asian experience (Chang, 2011; Andreoni and Chang, 2019).

The 'renaissance' of Industrial Policy and one of the critical turning points in the recent history can be traced back to the 2008-2009 financial crisis where leading economies such as Germany and USA were more willing to recognize the importance of Industrial Policy and its application (Andreoni, 2016; Mazzucato, 2013). Prior to the financial crisis, Industrial Policy was widely dismissed by economists who criticized its analytical framework and highlighted its poor track record (Lin & Treichel, 2014). Despite widespread skepticism from mainstream economists around Industrial Policy due to concerns about inefficiency, rent-seeking behavior, and political capture, as well as government's failure in picking winners, notable economists such as Ha-Joon Chang, Joseph Stiglitz, Dani Rodrik, Justin Lin, Ricardo Hausmann, and Mariana Mazzucato have

come out in favor of Industrial Policy, igniting an on-going discussion about Industrial Policy within policy circles (Chang, 2011; Chang & Andreoni, 2020).

The resurgence of the Industrial Policy debate in recent history wasn't solely prompted by the 2008-2009 financial crisis. The COVID-19 pandemic in 2019 and the subsequent global financial crisis have sparked another renaissance in discussions about Industrial Policy, placing it at the forefront of policy making (Agarwal, 2023). The COVID-19 pandemic shed light on important Industrial Policy objectives, such as economic resilience and strategic autonomy, at a time when supply chain disruptions led to shortages in essential supplies globally. The pandemic, along with heightened geopolitical tensions, the global technology race, and climate change raised concerns about the resilience of supply chains, economic and national security, and markets' ability to allocate resources efficiently and address future disruptions (Ilyina, Pazarbasioglu, & Ruta, 2024). As a result, many governments responded by pursuing a more active Industrial Policy stance. According to a study by Evenett et al. (2024) more than 2,500 Industrial Policy interventions were reported worldwide in 2023, and ironically these were most prevalent in advanced economies, with China, the European Union, and the United States accounting for almost half of all new measures in 2023 (Evenett et al., 2024, p25).

The motivation behind rising Industrial Policy interventions varies across different regions. Western countries are largely motivated by the growing rivalry with China, technological advancement, and climate change (Ilyina, Pazarbasioglu, & Ruta, 2024). For developing countries, Industrial Policy serves the purpose of upgrading their economies and reverse the dismantling of industrial policies and premature deindustrialization which took place between the 1980s and the 1990s (Chang & Andreoni, 2020), or as an attempt to get out of poverty (Chang et al., 2016; Kanbur et al., 2019; Noman and Stiglitz, 2015). Middle-income countries in Asia and some in

Latin America consider Industrial Policy as a tool to overcome the ‘middle-income trap’ (Noman and Stiglitz, 2016), while oil economies have started talking about Industrial Policy as a tool for economic diversification (Cherif & Hassanov, 2019). While there are varying motivations and ideological debates surrounding Industrial Policy and its effectiveness, most countries have been *de facto* implementing industrial policies (Perez and Primi, 2009).

1.2 The Rise of Modern Industrial Policy: From ‘Why’ to ‘How’

Despite the level of interest surrounding Industrial Policy, there remains a lack of common clarity and consensus regarding its definition, objectives, and scope. The range of definitions vary from very broad definitions that focus on government interventions to enhance productivity and economic growth, all the way to interventions focused on structural transformation and sector targeting (Warwick, 2013; Maio 2019; Riess & Valila, 2006, Naude, 2010). The disagreement extends to the very definition of industry, with varying opinions on whether it should be confined to the manufacturing sector or also include agriculture, mining, and services as well. It is widely accepted that the disagreement around Industrial Policy potentially stems from the lack of clarity about a unified definition to what it entails and its objectives (Maio 2019; Riess & Valila, 2006).

While there is a lack of common consensus around the concept and its definition, the focus of the Industrial Policy debate is increasingly shifting from whether it is justified in theory, to how it can be successful in practice. The shift from the old debate is backed by the fact that all countries essentially utilize Industrial Policy and consider it necessary (Rodrik, 2008; Naude, 2010; Chang & Andreoni, 2020). In this shift, Place-based Industrial Policy is under scrutiny as an instrument in the different proposed taxonomies of Industrial Policy frameworks and research on whether it

elicited favorable outcomes (Juhász et al., 2023; Incoronato & Lattanzino, 2023; Neumark and Simpson, 2005; Bailey et al., 2023; Criscuolo et al., 2022).

Place-based policies in general are policies that target areas which are underperforming, such as deteriorating downtown business districts and disadvantaged regions (Neumark and Simpson, 2015). Place-based policy is an alternative to spatially blind policy, which addresses all regions equally, the former is being put forward as an alternative approach to tackle public policy and promote economic growth (World Bank 2009; Daley & Lancy 2011). Nonetheless, it does not sit in opposition to spatially blind policies, instead, it represents one end of the spectrum regarding how much government decision-making and investment focus on geography (Beer et al, 2020). They are not equivalent to decentralization as they are more as they are more narrowly targeted in their spatial and governmental power scope, while relying on central government authority to accomplish their goals while involving the community and other stakeholders in decision-making (OECD, 2019). It's also important to note that place-based policies are not limited to a specific spatial scale as they can be applied to city regions, small urban or rural localities, small towns, or regions that encompass very substantial territories and populations depending on the context (Beer et al, 2020). While there is mixed evidence on the effectiveness of these policies, they are promoted due to its ability to “foster regional catch up and a more balanced and cohesive regional growth” (Bailey et al, 2023).

Rooted in the place-based policy approach, Place-Based Industrial Policies have emerged and are gaining increasing attention. Similar to broader Industrial Policy, Place-Based Industrial Policies lack a universal definition despite the growing prominence in practice worldwide. One perspective on Place-Based Industrial Policies is that they enable industrial policies to be tailored to local conditions and existing industrial bases (Bailey et al., 2023). This means that Place-Based

Industrial Policies represent a proactive approach to economic policy, where governments intervene not only in specific industries but also in specific locations to stimulate economic growth (Furnaro, 2024). Other definitions of Place-Based Industrial Policy view it as a means of addressing related distortions within the industrial policy domain, particularly in regions stuck in a low-wage, low-employment equilibrium (Hanson & Rodrik, 2024). Place-Based Industrial Policy have also been explained to achieve more specific goals, such as generating value creation opportunities by developing new place-specific specialisms and capabilities that arise from regional geographies, histories, cultures, and institutions (Barca, 2011). Another interpretation of Place-Based Industrial Policies emphasizes their selective nature, aiming to boost manufacturing activity in lagging regions or to counteract the decline of manufacturing in distressed areas (Juhász, Lane, & Rodrik, 2023). Place-Based Industrial Policies also have broader development objectives that go beyond economic-centered definitions. By focusing on lagging or distressed regions, Place-Based Industrial Policies can be defined through their contribution to regional catch-up, reducing inequalities and improving overall living standards (Bailey et al., 2023). Instruments for Place-based Industrial Policies largely intersect with industrial policy instruments with a targeted place-focus and can vary from one country to another, but as identified by Otchia (2021) can broadly vary “...from special economic zones (SEZs) to industrial parks, technological parks, export processing zones; even distributive policies and land reallocation” (Otchia, 2021, p.53).

Place-Based Industrial Policies has been adopted growing in fashion in around the world, surfacing in various forms. Examples include the European Union (EU) with the Smart Specialization Strategies (S3) approach (Barzotto et al., 2019), and in the UK, through local industrial strategies and more recently the 'leveling up agenda,' introduced to address the country's significant regional imbalances (Bailey & Tomlinson, 2021). In addition, it has gained popularity

in the US under the Biden Administration. In recent years the American government has adopted the American Rescue Plan Act (ARP), Infrastructure Investment and Jobs Act (IIJA), and Science Act, all of which adopt a strong place-based orientation to address the deep regional divides and large pools of underutilized talent and capacity (Muro et.al, 2022). Furthermore, in the past decade, Africa has also experienced a wave of industrial policies that have led to an unprecedented growth rate of Special Economic Zones (Otchia, 2021)

1.3 Place-based Industrial Policy in the Egyptian Context

Egypt has a long history of government interventions in the industrial sector that has been particularly evident starting from the 1950s (Said, Chang & Sakr, 1995). These interventions since the 1950s were characterized by the utilization of different Industrial Policy approaches such as import-substitution, infant-industry protection, state-enterprise led industrialization. However, following the adoption of the open-door policy in the 1970s, there was still relative utilization of industrial policies but a decline in the industrial sector, with a “non-industrial non-productive turn to the economy” in the seventies with a shift in emphasis towards trade and commerce (Soliman, 1998). Attempts made later through industrial strategies in 2005 and 2016 to reverse this shift have arguably achieved limited success (Loewe, 2013).

Simultaneous to the reduced focus on the industrial sector, there was a growing shift towards a place-based approach in policy making. In 1973, Law No. 70 was enacted, which established a framework for national planning that included three levels: national, regional, and local (Baseera, 2020). Prior to the introduction of this law, the local level received minimal consideration in government budget planning (Baseera, 2020). During the 1970s, there was a rise to establishing industrial zones with the establishment of new cities for the purpose of driving job

opportunities around the new cities. The following decades witnessed the establishment of more than 140 industrial zones, which are areas designated by the government for industrial activity; 2 special economic zones, which are areas governed by their own laws and authorities and enjoy reduced corporate tax rates, customs and duty exemptions, and VAT exemptions; and 9 free zones, which benefit from exemptions from taxes and customs, as well as special incentives for certain geographic regions under Investment Law 72 of 2017. (GAFI, 2024).

Despite the utilization of place-based approach to industrial policies in the form of instruments, limited literature is available on mapping these instruments and understanding the extent of Place-based Industrial Policy application in Egypt, as well as, its role in industrial and regional development.

1.4 Problem Statement

Egypt's modern history is arguably marked by recurring economic crises, on average once every decade since 1952, amounting to a total of 8 financial crises (Agarwal and Mazarei, 2024). Typically, the economic crises are resolved through an inflow of assistance from international leaders, and a resurgence of political interest in the performance of the industrial sector as a source of foreign currency and a way of limiting the import bill takes place, but the experiences across the 8 crises to enhance the industrial performance has garnered limited success compared to industrializing economies (Agarwal and Mazarei, 2024).

Egypt's industrial sector plays an important role in its economic development, with manufacturing contributing to about 16% of its GDP higher than the average for Africa (11%) and MENA (10%) (OECD, 2021, p.36). The contribution is considered low compared to fast-industrializing economies such as Malaysia (22%) and Thailand (27%). Egypt specializes in low-

to-medium-technology industries, which account for around 50% of domestic manufacturing value added, and a lower-than-average percentage of high technology (OECD, 2021, p.36). The country's participation in global value chains (GVCs) remains anchored in the export of primary commodities that are processed elsewhere as 40% of Egypt's exported domestic value added was used in other countries' exports in 2019 and Egypt's pattern of integration into global trade has remained largely unchanged since the 1990s (OECD, 2021, p.37).

On another front, Egypt has long faced significant regional inequality, reflected in both social and economic indicators. In 2019/20, the highest poverty rates were observed in rural and urban Upper Egypt, at 48.2% and 28.9%, respectively. In contrast, the poverty rates in rural and urban Lower Egypt were 22.6% and 11.2%, respectively (CAPMAS, 2019). In manufacturing and economic terms, this inequality is further emphasized by the fact that in 2020/2021 only 6% of the country's manufacturing as a percentage of GDP is concentrated in the Upper Egypt region (MoPED, 2021).

Both the lag in industrialization and regional disparities pose a significant challenge to Egypt's economic trajectory and local economic development and underscore the importance for targeted policy interventions such as place-based industrial policies. This thesis seeks to map place-based industrial instruments utilized in Egypt, explore the extent to which place-based industrial policies have been applied, examining the scope of their application and potential to address longstanding inequalities and contribution to local economic development.

1.5 Research Questions and Objectives

This study aims to address a gap in the literature by investigating the role of place-based approaches in Industrial Policy within the Egyptian context and their relevance in unlocking local economic potential. The research is guided by the central question: **How is the place-based approach integrated into Egypt's Industrial Policy to unlock local economic potential?**

To explore this question, the study addresses three sub-questions:

- To what extent has the place-based approach been incorporated into Egypt's industrial policies?
- What challenges and opportunities influence the implementation of Place-based Industrial Policy in Egypt?
- Why is deploying a place-based approach significant for Industrial Policy in the Egyptian context?

Based on these questions, this study has three main objectives. First it aims to understand the scope of Place-based Industrial Policy in Egypt, the extent to which a place-based approach is incorporated in policy making, and the challenges and enablers to Place-based Industrial Policy. While the research does not empirically investigate the impact of the policy instruments adopted by Egypt, it provides a foundational understanding of the broader approach, serving as a basis for necessary future research on the impact and effectiveness of place-based industrial policies at the local level in Egypt.

1.6 Thesis Outline

In an attempt to answer the research questions in an exploratory manner, the thesis is divided into six main chapters as follows:

- **Chapter two** provides the literature review of the Industrial Policy debate, and the Place-based Industrial Policy approach.
- **Chapter three** provides an overview on the study's conceptual framework and the adopted research design. Specifically, the section presents the implemented research methods, sampling techniques, as well as the ethical considerations and limitations of the research.
- **Chapter four** provides a detailed overview on Industrial Policy making in Egypt in terms of its historical context and contemporary status, strategies and national efforts with a place-based approach to Industrial Policy
- **Chapter five** presents the findings and discussion of the interview data coupled with secondary analysis. It is divided into three main sections. The first section provides insights on the scope of Place-based Industrial Policy in Egypt and the extent of its application. The second section looks at the challenges and enablers for planning and implementation of Place-based Industrial Policy in Egypt. Finally, the third section showcases the interview results on the significance of Place-based Industrial Policy to Egypt
- **Chapter six** presents concluding remarks along with the study's policy recommendations.

2. Chapter Two: Literature Review

Industrial Policy is a topic that has been subject to extensive debate since the dawn of capitalism, with different discourses reflected in literature across disciplines especially development economics (Chang & Andreoni, 2019; Kosacaff & Ramons, 1999; Chang, 2011, Chang, 2013). Despite the predominant theoretical debate on the merits of Industrial Policy, the practice of Industrial Policy is common globally and arguably on the rise especially in developed countries (Perez and Primi, 2009; Ilyina, Pazarbasioglu, & Ruta, 2024). With the widespread

practice and growing evidence of the role of Industrial Policy in the Asian miracle economic models, combined with the lessons from 2008 economic crisis, evidence on the middle-income trap, and the Chinese experience, the debate shifted from the "why" Industrial Policy should or should not be applied, to "how" it can be effectively implemented (Rodrik, 2008; Chang & Andreoni 2020). In addition, prominent economists like Ha-Joon Chang, Joseph Stiglitz, Dani Rodrik and Justin Lin have come out in favor of Industrial Policy while “distancing themselves from the old-style Industrial Policy, especially tariff protection” (Chang & Andreoni, 2020).

Moving beyond the merits of Industrial Policy and the ideological predisposition about the role of government, a growing body of literature approaches Industrial Policy as a pragmatic tool for economic development, emphasizing the importance of government intervention in correcting market failures and guiding structural transformation (Rodrik, 2004; Chang, 2011). This has led to an evolving body of research on Place-based Industrial Policy that shows that it has led to outcomes consistent with the intentions of policymakers in both lagging and declining regions (Juhasz, Lane and Rodrik, 2023).

This chapter presents a literature review on Industrial Policy, discussing its various definitions and the debates surrounding it, as well as the shift from theoretical discussions to the practical importance of understanding the "how" of policy implementation. It specifically focuses on place-based approaches globally and provides an overview of how Industrial Policy has been addressed in Egypt, highlighting the limited attention given to place-based industrial policies in the literature.

2.1 Industrial Policy Definitions

The debate surrounding Industrial Policy, evident in the literature extends to its definition, with diverse interpretations and perspectives being presented. This diversity leads to a range of understandings depending on what Industrial Policy means. It is also widely acknowledged that the disagreements concerning Industrial Policy stem from the lack of a unified definition and clear objectives (Maio, 2019; Riess&Valila, 2006).

Examining the various definitions of Industrial Policy, some scholars and the policy community approach it from a general and broad perspective, allowing for multiple interpretations of its scope. In an early definition by the OECD, Industrial Policy was defined as “Industrial policies are concerned with promoting industrial growth and efficiency.” (OECD, 1975). Similarly, Foreman-Peck and Federico (1999) in their review of Industrial Policy in Europe, adopt a very broad perspective defining Industrial Policy as “every form of state intervention that affects industry as a distinct part of the economy” (Foreman-Peck & Frederico, 1999, p3). Pitelis (2006) defined Industrial Policy as a set of measures taken by a government and aiming at influencing a country's performance towards a desired objective (Pitelis, 2006, p435).

The more common definitions for Industrial Policy have a sectoral dimension and incorporate the role of Industrial Policy in economic structural change. UNCTAD defines Industrial Policy as a “concerted, focused, conscious effort on the part of the government to encourage and promote a specific industry or sector with an array of policy tools” (UNCTAD, 1998). This definition was echoed by Chang (1994) who stated that it is “aimed at particular industries (and firms as their components) to achieve the outcomes that are perceived by the state to be efficient for the economy as a whole” (Chang, 1994, p66). The World Bank considers Industrial Policy as “government efforts to alter industrial structure to promote productivity-based

growth” (The World Bank, 1993, p304). Similarly, Pack and Saggi (2007) as well as Rodrik (2004) presented definitions for Industrial Policy that focuses on selective intervention or government policy that stimulates specific activities, while highlighting the role of this intervention in altering the structure of production to achieve economic growth (Pack and Saggi, 2007; Rodrik, 2004). Since Industrial Policy targets structural change, the meaning of the policy best translates to “we promote X but not Y,” though the later part of this statement is typically implicit as Rodrik explains (Rodrik, 2004).

Through the definitions, the different approaches to Industrial Policy can be seen in terms of the ‘horizontal’ and ‘vertical’ split when it comes to industrial policies. Horizontal Industrial Policy is inherently encompassed in the broader definitions of the concept, as it is concerned with supporting economic activities without any selectivity regarding economic sectors (Riess & Valila, 2006), it is also more widely accepted by neoclassical economists due to what they argue to be non-selective nature. On the other hand, vertical Industrial Policy is primarily concerned with supporting specific economic sectors. Renowned scholar Ha-Joon Chang has argued the existence of horizontal industrial policies, highlighting that all interventions are selective in nature, benefiting one sector over the other. This horizontal-vertical split had also brought more encompassing definitions of the two approaches, as presented by the European Commission (2002) where it stated that “Industrial Policy is horizontal in nature and aims at securing framework conditions favorable to industrial competitiveness...However, it needs to take into account the specific needs and characteristics of individual sectors” (European Commission, 2002, p1). It therefore needs to be applied differently, according to the sector. Industrial Policy therefore inevitably brings together a horizontal basis and sectoral applications. Warwick (2013) also presented the following inclusive definition including horizontal and vertical approaches:

“Industrial Policy is any type of intervention or government policy that attempts to improve the business environment or to alter the structure of economic activity toward sectors, technologies or tasks that are expected to offer better prospects for economic growth or societal welfare than would occur in the absence of such intervention.” (Warwick, 2013, p.16)

Traditionally, Industrial Policy focused on the manufacturing sector, and this reflected in the definitions presented to address concern of decline in manufacturing. Such definitions effectively presented Industrial Policy the same as manufacturing strategy. While there is no clear common consensus on this matter, some scholars argue that Industrial Policy also extends to non-manufacturing activity including services and green industries (Warwick, 2013). The shift away from the focus on manufacturing activity is even encouraged by prominent scholars such as Dani Rodrik who argues that industrial policies for services are necessary for the future of employment and good jobs (Rodrik, 2022).

Aside from the different objectives, structural dimensions, sectoral orientations, and types of industries, other atypical definitions have been suggested in the literature (Rodrik, 2007). This includes the concept of Industrial Policy as a "dialogue" between the state and the private sector to generate critical information and guide policy decisions (Rodrik, 2007). This highlights the evolving understanding of Industrial Policy as not merely a set of top-down interventions but as a dynamic process of collaboration and information exchange between key stakeholders.

2.2 Industrial Policy Debate

The debate over Industrial Policy is a long-standing controversy despite its widespread practical application around the world. A significant body of literature addressed this debate in

different ways, including the different points of views and de-constructing the arguments (Chang, 2013; Ambroziak, 2016; Chang & Andreoni, 2020; Rodrik, 2004)

The debate surrounding the general premise of Industrial Policy is usually interpreted through two opposite positions deriving from two different approaches: liberal (neoliberal) and Keynesian (structuralist) (Ambroziak, 2016). The neoliberal perspective argues that the optimal approach for all countries, across diverse circumstances, is to prioritize liberalization, integrating into the global economy, with market forces guiding resource allocation, all of which would allow leveraging comparative advantages effectively (Ambroziak, 2016). In contrast, the Keynesian structuralist viewpoint places greater trust in government interventions and its ability to enact meaningful measures to stimulate economic activity (Ambroziak, 2016).

With the dominating neoliberal mainstream economics, Industrial Policy has often been deemed to be ‘the policy that shall not be named’ as presented by Cherif and Hasanov (2019). Nobel Laureate Gary Becker, one of his most well-known statements on Industrial Policy is that “the best Industrial Policy is none at all” (Cherif and Hasanov, 2019). Prior to the 2009 crisis, economists commonly disregarded Industrial Policy as a means to foster industrial upgrading as they were skeptical about the theoretical foundations and pointed to its historical ineffectiveness as justification for their skepticism.

The debate against Industrial Policy is rooted in Adam Smith’s reasoning against government intervention to encourage industries. Smith argued that Adam Smith argued that any system or policy that either excessively encourages investment in a particular industry beyond its natural share of capital or imposes restrictions that divert capital away from an industry is counterproductive (Ambroziak, 2016). Building on this, the Washington consensus which dominated orthodox thinking and policy advocacy in development economics during the 1980s

advocated that, government intervention “...was to be limited to a ‘narrow set of market failures’ (such as education and infrastructure), and the widely advocated elimination or reduction of import restrictions and state-owned enterprises” (Deraniyagala, 2001).

Some of the most prominent arguments against Industrial Policy presented in the literature include:

Government inability to pick winners: While there’s a level of tolerance to industrial policies that improve business environment, there is considerable resistance to industrial policies is directed at policies that are designed to promote specific industries “picking winners”, specially that promoting particular industries naturally goes against the “basic tenets of the prevailing economic orthodoxy” (UNCTAD, 2007). The argument against “picking winners”, consistent with Adam Smith’s reasoning, that interventions distort market signals. Governments are seen as incapable of successfully “picking winners”, and the protected infant industries are believed never to grow up (UNCTAD, 2007).

Rent-Seeking and Corruption: Rent-seeking, capture corruption are argued to be a by-product of Industrial Policy. Selective industrial policies under this argument seek to create rents in a particular activity to encourage it. An example for this is import protection or subsidies policies, which in turn, encourage economic agents to attempt to maintain those rents indefinitely. Budzinski and Schmidt (2006) pointed out that as a result of industrial policies, economies are induced to concentrate on gaining and maintaining rents from state aid instead of focusing on creating better products and processes (Budzinski and Schmidt 2006, p5).

Distorting market force: This argument refers to reinforcing or counteracting the allocative effects that the existing markets would otherwise produce, potentially leading to inefficiencies and misallocation of resources (Rodrik, 2004).

Information constraints that impact the practicality of implementation as opponents of Industrial Policy argue that the existence of market failure is not enough to justify government intervention as the intervention should result in higher welfare as well as be cost-effective, which is difficult to identify due to huge informational requirements. (Budzinski and Schmidt 2006; Harrison and Rodriguez-Clare 2009; Naude 2010).

Weak empirical evidence: Harrison and Rodriguez-Clare (2009) conclude that literature offers no evidence of a significant association between tariff levels and economic growth, while Deraniyagala (2001) and Noland and Pack (2003) show that infant industries beneficiaries of tariff protection often turn out to be the ‘sunset’ industries, instead of the intended sectors with latent comparative advantage.

Poor Historical Track-record: Many arguments against Industrial Policy are based on real-life experiences in the world using the post World War II period. Lin (2014) explains some governments pursued the development of capital-intensive industries in most socialist and developing countries post WWII, which led them to an economic system characterized by “inefficient resource allocation, suppressed worker incentives, rampant rent-seeking behavior, deterioration in income distribution, and poor economic performance” (Lin, 2014).

In contrast, many arguments have also emerged in favor of Industrial Policy. These arguments include:

Correcting market failure: Government interventions to correct market failure have a positive spillover effect and positive impact on productivity, and the classic justification for Industrial Policy is that it remedies market failures, for example by providing public goods or subsidizing activities with positive externalities (Crafts, 2010). According to prominent neoclassical scholars,

industrial-policy measures are considered acceptable only in cases where market resource allocation is deemed inefficient (Cohen, 2006).

Overcoming coordination failures: Rodrik (2004) argues that coordination failures present a compelling argument for the necessity of Industrial Policy, as they are more prevalent than other market failures. He highlights that the measures required for coordination vary across industries; for instance, establishing a horticultural industry necessitates different coordination efforts than initiating a motor vehicle industry. Similarly, Ulltveit-Moe (2008) underscores the ongoing relevance of Industrial Policy in addressing coordination failures. Her emphasis stems from the importance of economic and industrial activity clusters (agglomerations) for enhancing productivity (Ulltveit-Moe, 2008).

Despite widespread skepticism and even hostility towards Industrial Policy among neoclassical mainstream economists, renowned scholars such as Ha-Joon Chang, Joseph Stiglitz, Dani Rodrik, and Justin Lin have expressed support for it. Although most economists distance themselves from the old-style Industrial Policy, especially tariff protection, the support towards Industrial Policy has brought new avenues to the debate and direction towards how Industrial Policy should be implemented. Modern Industrial Policy recognizes governments regularly intervene in their economies worldwide and they should and can select sectors (Felipe, 2015). It is argued that the ‘old’ debate about the merits of Industrial Policy has made way for a ‘new’ debate, and “a fragile consensus is emerging that the issue now is about the ‘how’ of Industrial Policy rather than the ‘why’ of Industrial Policy, reflected in the fact that almost all countries presently engage in Industrial Policy, and consider it necessary (Naude, 2010). This shift is particularly important as it allows the discourse to move beyond the theoretical debate and inform the question

of how to do Industrial Policy better and evaluate different Industrial Policy approaches, including Place-based Industrial Policy.

2.3 Place-based Industrial Policy

Moving beyond the Industrial Policy debate and examining various approaches to Industrial Policy, the literature explores Place-based Industrial Policy from multiple angles. One key angle explored in the literature is understanding the place-based policy approach, which intersects with policy, development, and economic geography (Neumark and Simpson, 2015; Beer, 2020). Place-based approach dates as far back as the 1960s, when Louis Winnick highlighted the dichotomy of “place prosperity” vs. “people prosperity” in considering the redistribution of economic activity (Winnick, 1966). Place-based policies are policies commonly target underperforming areas, such as deteriorating downtown business districts and disadvantaged regions (Neumark and Simpson, 2015). As explained by Beer (2020), the policies embody an ethos and approach to economic and social development that recognizes the unique opportunities each city, region, and rural district presents. They advocate for a tailored development strategy that addresses the specific needs of each area, emphasizing that no settlement is too small or too remote to plan for progress (Beer, 2020).

Place-based policy has been put forward as an alternative approach to tackle public policy and promote economic growth (World Bank 2009; Daley & Lancy 2011). They are often justified by hypotheses that link poor economic performance with the presence of disadvantaged residents, along with various market failures that exacerbate these issues (Neumark and Simpson, 2015). The key characteristic of place-based policy is that it is not spatially blind, yet it does not oppose spatially-blind policies. Instead, it represents one end of the spectrum in terms of the extent to

which government decision-making and investment prioritize geographic considerations (Beer, 2020). The spatial scale for place policies can vary from city regions, small urban or rural localities, small towns, or regions that encompass very substantial territories and populations (Beer, 2020).

Linking between Industrial Policy and place-based policies, Rodrik (2023) explains that “...increasing regional inequality and the persistence of economic distress in space has led to a resurgence of interest in place-based industrial policies” (Rodrik, 2023, p24). The effectiveness of Place-based Industrial Policy has been studied throughout the literature for different policy tools that have targeted specific locations and showed mixed results, but evidence have found that it arguably often leads to outcomes consistent with the intentions of policymakers in both lagging and declining regions (Juhasz, Lane and Rodrik, 2023).

Evidence on Place-based Industrial Policy on the literature includes ones from historical cases shows that local manufacturing can trigger structural transformation and lead to lasting income gains across generations like in the case of the US during WWII and Finland’s complicated metals (like ships, locomotives, cables, and engines war reparations) to the Soviet Union (Mitrunen 2021; Garin and Rothbaum 2022). In addition, the research on European Place-based Industrial Policies targeting economically distressed regions reveals that these policies can support the growth of manufacturing jobs, often by curbing declines (Criscuolo et al. 2019; Cingano et al. 2022). Similarly, the initiatives focused on lagging regions have demonstrated positive and frequent long-term effects by promoting the self-sustaining economic agglomerations (La Point and Sakabe 2021; Incoronato and Lattanzio 2023).

2.4 Egypt's Industrial Policy and Place-based Industrial Policy Focus

While the literature on Industrial Policy in developed countries is prevalent, research on Egypt's Industrial Policy remains relatively sparse. Said, Chang, and Sakr (1995) provide a comprehensive historical account of Egypt's Industrial Policy from 1952 to the 1990s. Their study examines the evolving role of the state throughout these decades and offers a comparative analysis of Egypt's industrial strategies against the successful models of East Asian countries (Said, Chang & Sakr, 1995). This historical perspective includes a detailed examination of the Economic Reform and Structural Adjustment Program (ERSAP), which Egypt adopted in collaboration with the IMF and World Bank in 1991. The study highlights the challenges and outcomes associated with this major policy shift.

In a similar vein, Soliman (1998) explored the influence of state intervention on Egypt's industrial development, focusing on how state-driven economic strategies and broader capitalist dynamics have shaped the industrial sector. Soliman's work provided insights into the development of the manufacturing sector and Industrial Policy since the Nasser era and the interplay between the state and industrial capitalism (Soliman, 1998).

On Industrial Policy and "picking winners" Galal and Elmegharbel (2005) offered an analysis of the effects of selective industrial intervention on Egypt's manufacturing sector from 1980 to 2000 (Galal & Elmegharbel, 2005). Their research investigates whether preferential incentives provided to various industries led to increased diversification and improved performance. The findings showed a lack of positive correlation between these incentives and industry outcomes, leading the authors to recommend a strategic shift towards targeting activities with positive spillover effects (Galal and Elmegharbel, 2005). They advocated for policies that

focus on new products and technologies, emphasizing the need for performance-based and time-bound approaches to enhance industrial efficacy.

In more recent research, Loewe (2013) examined Egypt's industrial policies during the final years of President Mubarak's tenure, specifically focusing on the 2004 industrial strategy. Loewe argues that this strategy was notably less interventionist and selective compared to earlier policies. Instead, it was oriented more towards addressing market demand. This analysis provides a nuanced view of the evolution of Industrial Policy in Egypt, highlighting a shift in approach towards a more market-driven model.

Hawash (2007) evaluates the position of Egypt's manufacturing sector amidst a competitive landscape marked by rising economies such as Tunisia and Morocco, efficient East Asian and European transition economies, and low-wage, labor-abundant countries like China, India, and Bangladesh. The study identifies several constraints to the development of a thriving industrial sector, including inefficiencies in human resource development, technical and legislative barriers, and broader economic challenges. These insights underscore the need for comprehensive reforms to address these impediments.

In the scope of Place-based Industrial Policy, research is relatively scarce on place-based industrial policies, and this is common across countries in Africa (Otchia, 2020). Abdelaziz (2018) investigates the role of industrial clusters as drivers of local development in Egypt. Utilizing both qualitative and quantitative methods, Abdelaziz highlights the potential benefits of fostering existing clusters, particularly in Upper Egypt, and underscores the there is a need for targeted policies to support these local industrial networks.

In terms of performance of Place-based Industrial Policy instruments, Ali (2020) presents a study on the Suez Canal Economic Zone, analyzing its impact on economic growth and social

and environmental standards. The study finds that while the economic benefits are significant, there are notable adverse effects on social and environmental conditions, suggesting the need for a balanced approach to industrial development. Sakr et al. (2011) explore the concept of eco-industrial parks in Egypt, examining both successful implementations and limitations. Their research identifies key factors contributing to the success of these parks and highlights the challenges that need to be addressed to optimize their impact on sustainable industrial development.

2.5 Literature Gap

Throughout existing literature, the conceptual debate on Industrial Policy persists, but the discourse is shifting from whether to implement Industrial Policy to how it should be executed. In this shift, the focus on Place-based Industrial Policy emerges due to its importance in addressing social objectives embodied in regional disparities and inequality, and economic objectives of advancing industrial agenda.

Despite this growing recognition, much of the existing research has focused on categorizing and classifying Industrial Policy and its various instruments, often lacks focus towards the specific nuances of Place-based Industrial Policy. The lack of a comprehensive framework for understanding and mapping Place-based Industrial Policy means that its unique challenges and opportunities remain underexplored. This gap is particularly evident in the context of Egypt, where limited literature on Industrial Policy and Place-based Industrial Policy exists.

In Egypt, and more broadly across the Global South, there is a limited understanding of the processes involved in planning and implementing Place-based Industrial Policy, as well as their

effectiveness. This gap in knowledge presents significant challenges to the adoption and execution of such policies in these regions.

Therefore, this study aims to fill this gap by conducting an in-depth qualitative examination of Place-based Industrial Policy and the extent of its application in the Egyptian Industrial Policy context. By mapping Place-based Industrial Instruments, exploring the extent to which Place-based Industrial Policy is adopted, the challenges and enablers, this research seeks to contribute to the broader discourse on Industrial Policy and offer insights that are relevant not only to Egypt but also to other countries in the Global South facing similar challenges.

3. Chapter Three: Conceptual Framework and Research Methodology

3.1 Conceptual and Theoretical Framework

With the ongoing debates about Industrial Policy, it is clear that there is no universal formula for its definition, effectiveness, nor there is a universal formula for place-based policy. In order to set the frame of this study, this section starts with an identification of the key words indicated in the study aim such as “Industrial Policy”, “Place-based Policy” and their definitions in the context of this study.

As examined in the literature, the term Industrial Policy has multiple definitions. This research adopts a more traditional approach, drawing on the World Bank (1993), which places emphasis on manufacturing, and Pack and Saggi (2007), which highlights the sectoral nature of Industrial Policy. This blended definition views Industrial Policy as government efforts to modify the industrial structure to foster productivity-based growth, specifically by targeting sectors to enhance their productivity and increase their significance within manufacturing. In line with this definition, it is important to note that a single policy approach is unlikely to be able to comprehensively address all specificities of “the industry”. Adapting from the EU Industrial

Landscape Figure 2 shows Egypt’s industrial landscape that includes different spheres, however, place-based approaches have the potential to address the needs of each (Alessandrini et al, 2019).

The bridge between the place-based approach and the Industrial Policy brings Place-based Industrial Policy to the forefront. For the purpose of the research, Place-based Industrial Policy utilizes Furnaro (2024) definition which is Place-based Industrial Policy represents a proactive approach to economic policy in which governments intervene not only in specific industries but also in specific locations to stimulate economic growth.

The conceptual framework utilizes both definitions and builds on different efforts in the literature, notably those by Warwick (2019), Criscuolo et al. (2022), and Felipe (2015), on the framework for designing Industrial Policy, selecting policy instruments, and developing a taxonomy, while focusing on

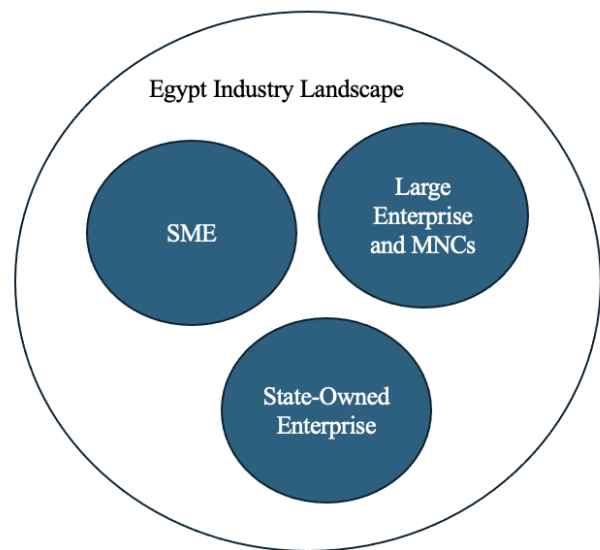


Figure 1. Egypt Industry Landscape

Place-based Industrial Policy and its role in local development. It also borrows from the field of organizational behavior, and the Multiple-Streams Approach (MSA) framework developed by political scientist John Kingdon for understanding how public policies are formed (Kingdon, 1995).

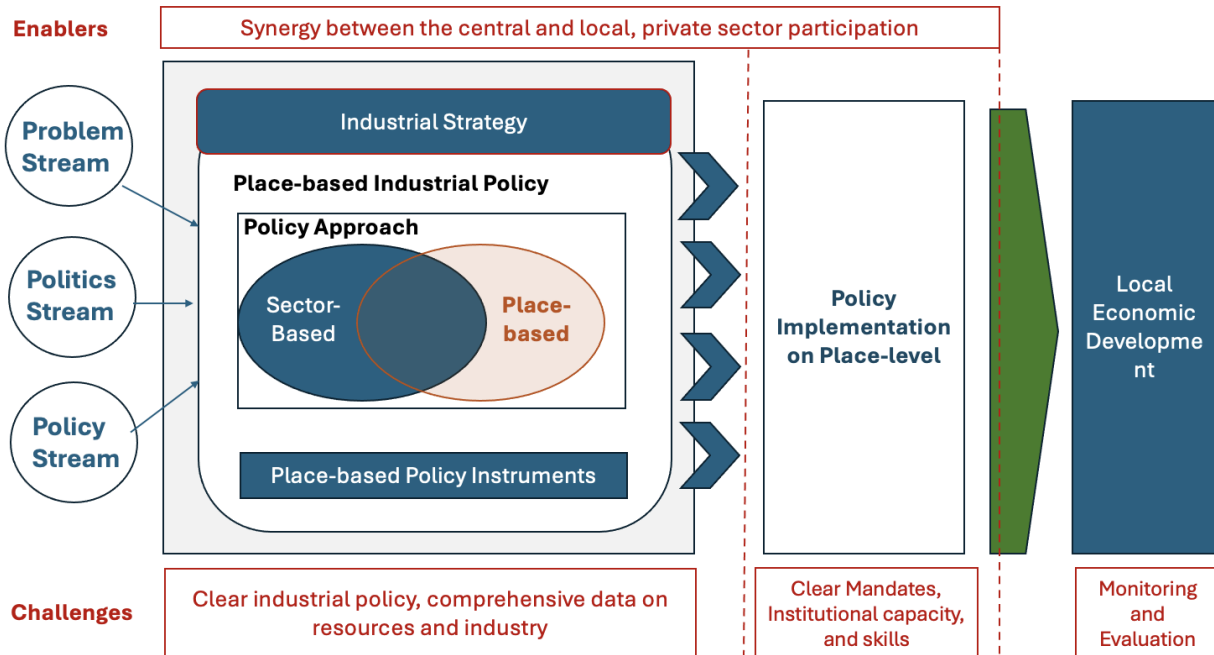


Figure 2. Developed by author

In the proposed conceptual framework, Policy can be seen to follow an industrial strategy, which is about coordinating a wide range of economic policies to achieve particular objectives, which need not be purely economic (Brown, 2018). The strategy is considered a masterplan for the industrial policies to follow, and a comprehensive and long-term plan that outlines the direction and specific goals for industrial development within an economy. It sets the objectives and strategic approaches necessary to achieve these goals, thereby informing the subsequent industrial policies such as Place-based industrial policies.

In this context, the policy-making process can be understood through the adaptation of the Multiple-Streams Approach (MSA) (Mu, 2018). According to this approach, policy decisions result from the coupling of three independent streams at critical moments. The first stream is the problem stream which is the stream for problems that require visibility due to indicators performance or crises that require its positioning on the policy agenda. The second stream is the politics stream which involves political attention to the topic, and the third is the policy stream

which requires the policies to be feasible and align with the values of the policymakers to gain traction. In the case of Egypt, the identified problem stream includes regional disparities and the lag in industrial development, challenges exacerbated by the economic difficulties faced in 2022. The policy window, where these streams converge, allows for the integration of sectoral and place-based approaches, making the case for implementing place-based industrial policies.

In the original framework, the streams pool in a policy window characterized by good fit of policy solutions and political will, while the proposed framework integrates the approaches of sector and place based to the policy window. The focus on vertical industrial policy and place-based industrial policy in the conceptual framework stems from the vertical nature of place-based industrial policy. In addition, the research adopts a definition of industrial policy that emphasizes its sectoral dimensions. From the policy output to policy implementation, institutional conditions impact the performance. The performance across this process including the enablers and challenges faced at different stages impact the final local economic development output.

Institutions play a critical role in this framework and in determining the effectiveness of Industrial Policy in general (Rodrik, 2004). According to Ferraz et Al. (2014), the level of institutional capability “that is, the ability of (mostly) public institutions to deliver a proposed set of actions at a specific time” defines the potential scope of an effective industrial policy (Ferraz et Al., 2014, p.292). The degree of autonomy and embeddedness is also important as excessive autonomy for bureaucrats can reduce corruption but may fail to create the necessary incentives for the private sector (Rodrik, 2004). On the other hand, too much closeness between bureaucrats and business interests risks capture. Rodrik (2004) explains that elements of institutional architecture require presence of high-level political support, coordination private-public bodies and Mechanisms of transparency and accountability.

Examining the theoretical foundation for Place-based Industrial Policy, the concept of Place-based Industrial Policy stems from two key theoretical concepts, endogenous growth theory and new economic geography theory. **Endogenous Growth Theory** highlights that economic growth is primarily driven by internal factors, particularly through the development of human capital and the innovation of new technologies (Alessandrini et al, 2019). This theory comes in opposite to traditional growth theories, which attribute economic growth to external factors like capital accumulation or technological advancements from outside the economy, endogenous growth theory emphasizes the role of internal processes and investments in human capital, innovation, and knowledge (Alessandrini et al, 2019). **New Economic Geography Theory** explores the relationship between location and economic development, both at national and regional levels. It emphasizes the significance of geographical space, and the role regions play in fostering a business-friendly environment (Alessandrini et al, 2019). This theory suggests that the interplay between institutions and geography is vital for development, advocating for policies that encourage these interactions. In a place-based approach, it is crucial to understand how policies will impact both the local and broader regional contexts, considering the specific geographical and institutional factors at play.

3.2 Methodology and Rationale

To understand the perspectives on the dynamics of the Industrial Policy landscape in Egypt and the extent to which the place-based approach in Industrial Policy is utilized, the research deployed a qualitative research design. The rationale behind the choice of methodology is to delve into the policy understanding and policy implementation with policy-makers and experts within the Egyptian context. The qualitative research aims to complement the limited qualitative literature on Industrial Policy in Egypt and fill the gap of research in understanding the framework of Place-based Industrial Policy as an approach to Industrial Policy. While there are of few research on individual place-based policy instruments and their impact, the topic hasn't been explored from a policy framework angle. Hence, this research included conducting in-depth interviews with policymakers and experts on Industrial Policy in Egypt, utilizing the exploratory approach enabling understanding of their views on the policy process and approach, while using a systematic approach in analysis of the interview findings.

The research adopted a mix of qualitative tools in both data collection and analysis. To begin with, it employs an explanatory approach to explore Place-based Industrial Policy in the Egyptian context, aiming to uncover the extent of its utilization and factors that could influence its implementation and effectiveness. The approach to this research is explanatory as its primary purpose is to "...examine a little understood issue or phenomenon and to develop preliminary ideas about it and move toward refined research questions" (Neuman, 2014). The explanatory approach allows for facilitating a deeper understanding of the dynamics at play, especially with the fragmented data and concepts. allowing for a comprehensive analysis of how the 'place' characteristics and policy frameworks interact within the specific socio-economic landscape of Egypt. This happens due to the flexible nature of explanatory approach and its usefulness when

the subject is new and has not been previously explored (Neuman, 2014). In addition, the exploratory approach allows for the comprehensive gathering of available information, which is crucial for guiding policy decisions and understanding the broader implications of place-based industrial policies in Egypt.

3.3 Data Collection and Sampling

This research utilized in-depth interviews with policy-makers and experts and a survey of relevant reports and official data. The approaches aim to provide a comprehensive understanding of the Place-based Industrial Policy in Egypt and allow for the triangulation of insights from different sources. The in-depth interviews offered qualitative insights into expert perspectives, while the systematic analysis of reports and official data helped to validate and contextualize these perspectives within the broader policy and economic landscape.

Thirteen in-depth semi-structured interviews following questions referenced in Appendix I were selected as the research tool that is most suitable to collect data from current and former policy-makers, as well as, experts. The in-depth interviews ranged between 40 to 60 minutes and through a mix of physical and virtual modalities. The interviews were conducted using semi-structured questions, following the guidelines of Marshall and Rossman (2014) for guided interviews. This approach allows participants to direct parts of the conversation and express their viewpoints freely, while the researcher explores a range of topics to gather the participant's perspectives (Marshall & Rossman, 2014).

In selecting the stakeholders to be interviewed, the main criterion was involvement in Industrial Policy making and high-level awareness of Industrial Policy. Hence, the approach used

for identifying the interviewees was non-random sampling. Interviewees in the policy making sphere from different arms of government executive and legislative were selected, as well as, former senior representatives, and experts from international and local organizations were interviewed.

- Policymakers: A total of 3 senior policymakers from Ministry of Local Development, Ministry of Planning and Economic Development and International Cooperation, Parliamentary Industry Committee
- Former Government Officials: A total of 3 senior former government officials in the Industrial Development Authority, Ministry of Trade and Industry, and Suez Canal Economic Zone
- Academic Professors: A total of 3 academic professors from the field of economics and political science
- Industrial Policy Experts: A total of 4 experts from international development organizations, the Federation of Egyptian Industries, and an international industrial policy expert based in Africa.

3.4 Data Analysis

The interview questions were directed to capture the understanding of Place-based Industrial Policy in Egypt and the extent of its application and questions were divided to address policy landscape, formulation and implementation. The study followed an interview transcription method and utilized thematic analysis to analyze the data collected through in-depth interviews. Thematic analysis allowed for the identification and interpretation of recurring themes within the data (Naeem, Ozuem, & Randagni, 2023). By focusing on the underlying themes, the analysis

aimed to provide a deep understanding of the participants' knowledge and opinions on the scope of Place-based Industrial Policy application in Egypt, what constitutes place, challenges and enablers, and the significance of Place-based Industrial Policy in the case of Egypt. In addition, the data analysis utilized the systematic analysis of reports and official data to validate and contextualize these perspectives within the broader policy and economic landscape.

3.5 Ethical Considerations

As per qualitative research guidelines, the required IRB approval was acquired before conducting any interviews. Informed consent was obtained from all interviewees who acknowledged understanding that no potential harm or benefit will be gained from this research. To maintain confidentiality, interview data was treated as confidential at all research stages, and anonymity was upheld in the final write-up and transcripts. Throughout the research the goal and academic nature of the study were clearly communicated to respondents, engaging with them solely as a master's degree candidate and avoiding conflicts of interest within employment and personal professional networks.

3.6 Limitations of Research

Several limitations were faced in relation to this research. The study focuses primarily on exploring the role of Place-based Industrial Policy and Industrial Policy making in Egypt, hence, interviewees are from policy making and academia spheres, and the study does not include reflections from the private sector, which may limit the breadth of perspectives. Limited research is available on the impact of place-based industrial policies on local economic development in Egypt, hence, this scarcity of existing studies made it difficult to compare findings or draw on a substantial body of literature, potentially restricting the depth of analysis and the ability to

contextualize the results within a broader research framework. In addition, the study does not address the risks of industrial policies which includes issues like political capture. The study faced time constraints that impacted the extent and depth of data collection, further limiting the scope of the research. Access to comprehensive and localized data was also a challenge, affecting the ability to fully explore and analyze the impact of place-based industrial policies.

4. Chapter Four: Industrial Policy Context in Egypt

To understand Egypt's approach to Industrial Policy in its current form, the study examines both historical and contemporary landscapes of Industrial Policy, particularly since 1952, as they provide critical insights into the evolution of strategies and approaches that shapes the present-day policies. Egypt's Industrial Policy can be divided into phases beginning with the 1952 revolution, which marked the start of active and increasingly influential industrial policies that have significantly impacted the country's economic trajectory (Loewe, 2013).

This chapter focuses on the development of Industrial Policy since Egypt's independence in 1952, exploring the various approaches utilized and their implementation. It begins with an analysis of key characteristics from different historical and contemporary phases. The chapter then moves to a narrowed down focus on the past 20 years since this period covers two Industrial Strategies issued by the government, analyzing the strategy documents on Industrial Policy issues, highlighting the similarities and differences, and assessing the integration of a place-based approach in their strategy design.

The chapter then shifts to a detailed examination of the current national efforts in place-based industrial development, tracing their origins and connecting them to historical strategies and contexts. It also includes a stakeholder mapping for Industrial Policy implementation, emphasizing the role of the place-based approach.

The chapter aims to provide a comprehensive reflection on Egypt's Industrial Policy practices, with a particular focus on how the place-based approach has been incorporated, or lack thereof, into policy development and implementation within the Egyptian context.

4.1. Historical and Contemporary Context of Industrial Policy in Egypt

Egypt has had a long tradition in government intervention in the economy and is considered an interesting case to study due to the history of industrial policies (Loewe, 2013). The country experienced various periods of industrialization since the 1820s, nonetheless, it wasn't until the 1950s when various industrial policies were introduced that the country was considered to have established a substantial modern industrial foundation (Mabro and Radwan, 1976).

Examining the Industrial Policy trends undertaken by Egypt since the 1950s, following the WWII era, Said, Chang & Sakr (1995) presented them in 5 distinct phases, each phase corresponding to a different type of development strategy, institutional set-up and pattern of state intervention. Throughout the phases covered by Said, Chang & Sakr (1995), they highlight that "...it remains doubtful in most of these phases whether one can identify a state industrial strategy per se and not just a group of investment projects undertaken or encouraged by the state that do not add up to a strategy" (Said, Chang & Sakr, 1995, p.2). This idea is clarified throughout the phases with the different as follows:

- **First Phase:** This phase of industrialization in the post-war era lasted until the mid-1950s and was characterized by a reliance on **private enterprise for industrial development**, accompanied by government intervention through protective trade and investment policies. The economic challenges brought by the Great Depression and World War II prompted Egypt to adopt **Import Substitution Industrialization and infant-industry protection** as attempts at economic diversification for the major exporter of raw cotton (Said, Chang & Sakr, 1995). These efforts included measures such as tariffs, import controls, and limited subsidies, while also promoting cotton exports. At the time, **the only state-owned enterprises were the oil refinery in Suez, the government press, and military factories**

and workshops belonging to various ministries. Following the 1952 revolution, significant direct **government investment in industry** marked the beginning of the second phase, characterized by a state-led industrial push that lasted until the mid-1960s (Said, Chang & Sakr, 1995).

- **Second Phase:** While Industrial Policy was made “...a core – if not the core – element of national development strategies” in the period following 1952 independence (Loewe, 2013), it wasn’t until 1961 that **state-enterprise led industrialization was dominating.** The first five-year economic plan, which aimed to mobilize 55% of total investment through the private sector, saw limited success as the private sector struggled to meet its targets. This led to a wave of nationalizations in 1961, putting the state in control of most large-scale industries, banking, insurance, foreign trade, and utilities (Said, Chang & Sakr, 1995, p.3). The plan adopted a straightforward Import Substitution Industrialization (ISI) strategy, targeting both basic industries like textiles, sugar, and pharmaceuticals, as well as more advanced sectors such as heavy engineering, steel, and chemicals. These efforts resulted in notable successes, including the creation of one million jobs, an annual growth rate of over 10% in manufacturing output, and overall production growth of 6% annually (Said, Chang & Sakr, 1995). . However, by 1965, the state faced significant fiscal challenges and a foreign exchange crisis, driven by increased imports of raw materials and capital goods, as well as substantial expenditures on infrastructure and social services.
- **Third Phase:** The third phase extended from 1965-1975 and corresponded to the regional wars and the inter-war period where the second five-year plan had to be abandoned due to shortages in financing (Said, Chang & Sakr, 1995).

- **Fourth phase:** The fourth phase of Egypt's industrial development began with the implementation of the Open Door Policy (ODP) in 1974 (Said, Chang & Sakr, 1995).. This policy shift occurred during the oil boom of the 1970s, resulting in increased revenues from oil exports, tourism, Suez Canal tolls, remittances, foreign borrowing, and aid. Despite these financial inflows, Egypt's public debt grew, which diverted focus away from the productive sectors, particularly manufacturing. **During this period, manufacturing growth lagged behind other sectors like trade and finance.** Although there were early indications of a move towards export-oriented activities, the industries that saw the most growth were those partially funded and managed by foreign investment, including petroleum, extractive industries, engineering, and chemicals. **The state's role during this phase was described as that of a 'rentier state,' relying on external income sources rather than the economy's productive capacity** (Said, Chang & Sakr, 1995)..
- **Fifth phase:** This phase extends after half of the **1980s until the Economic Reform and Structural Adjustment Program (ERSAP) in 1991** and marked a significant decline in many of Egypt's external revenue sources due to two adverse oil shocks (Said, Chang & Sakr, 1995). The low oil prices of the 1980s along with weak investment levels, and depleted revenues, led the government to seek out a structural adjustment program supported by the IMF and the World Bank (Said, Chang & Sakr, 1995). This period of external shocks witnessed a positive shift towards industrial development, **as many import-oriented** entrepreneurs from the Open Door Policy (ODP) era transitioned to industrial activities. This shift was encouraged by the state through legislation such as the 'new industrial cities' law and import restriction policies aimed at safeguarding domestic industries. **Termed as 'industrial-liberalization,' this period prioritized exports over**

import substitution. Industries that flourished during this time included clothing, food processing, chemicals (especially plastics and paints), engineering (especially consumer durables and electrical), and leather goods (Said, Chang & Sakr, 1995)..

Drawing on Said, Chang, and Sakr's (1995) identification of five phases of industrial policy trends, which extends up to 1991, this research identifies three distinct periods each with its own industrial policy characteristics and directions. The period between 2011 and 2016 was omitted due to the dominance of political turbulence and instability. The identified periods begin in 2006, with the issuance of the first published industrial strategy in the past 20 years, followed by 2016, when the second industrial strategy was introduced, and third phase in 2022, when the economic crisis reignited interest in manufacturing and boosting exports.

- **From 2006-2011:** 2006 marked the start of the ‘businessmen cabinet’ appointed by President Mubarak under the Prime Minister Ahmed Nazif. In 2006, the Ministry of Foreign Trade and Industry (MFTI) under Minister Rachid Mohamed Rachid released the 'Egypt Industrial Development Strategy' (EIDS). The beginning of this period was when Egypt's Partnership Agreement with the European Union (EU) entered into force Egypt had concluded an agreement with Israel and the US establishing Qualifying Industrial Zones (QIZs) (Loewe, 2013). The period was characterized by free trade agreements and attempts to improve institutional capacity and guide industrial structural transformation.
- **From 2016-2020:** In 2016, Egypt embarked on Industry and Trade Development Strategy 2016 – 2020, which coincided with the 2016 economic crisis that took place as a result of shortage in foreign currency and led to IMF loan arrangement (Zaki, 2017). While the strategy was published it is debatable on whether it went into effect and there's little

evidence in the literature on its implementation. Nonetheless, this period starting 2016 was characterized by decline in private sector share of the GDP and rise in state ownership. In addition, there was a strong focus on infrastructure, and a rise in import-oriented activities.

- **From 2022-Present:** As Egypt went once more into an economic crisis in 2022, attention shifted to the manufacturing sector to boost exports (Ahram Online, 2024). Direction towards import-substitution policies was announced in 2024 and focus on incentivizing the industrial sector.

4.2 National Industrial Policy Strategies and Place-based Approaches

Over the past 20 years, various initiatives and developments have been undertaken to boost economic growth and drive structural transformation in the industrial sector, aiming to achieve broader economic development. During that period, two comprehensive strategy documents specifically directed at Industrial Policy were launched and published. **Figure 3** showcases the key highlights of both strategies, and the place-based focus they both exhibited.

Element	'Egypt Industrial Development Strategy'(2006)	Industry and Trade Development Strategy (2016)
Announced Timeframe	2006-2025 (<i>de facto ended with the fall of the regime in 2011</i>)	2016-2020
Objectives	<ul style="list-style-type: none"> ● Higher industrial production growth. ● Increased exports and job opportunities. 	<ul style="list-style-type: none"> ● Transforming the Egyptian exports' structure into high value exports ● Increase the annual

	<ul style="list-style-type: none"> ● Enhanced industrial efficiency and competitiveness. ● A shift from resource-based and low-tech industries to medium- and high-tech industries. ● Deeper integration into the global economy. 	<p>industrial growth rate</p> <ul style="list-style-type: none"> ● Increasing MSME sector contribution to GDP ● Increase exports annual growth rate ● Delivering a skilled workforce that addresses the labor market's skills gaps and requirements ● Improve the institutional performance management system
Sectors Targeted	<p>The strategy divided the sectors targeted into 2 clusters, existing and niche.</p> <p>Existing Sectors:</p> <p>Engineering, Food Processing, Chemicals & Pharmaceuticals, Textiles & Garments, Building Materials, Furniture, Paper & Paperboard, Leather</p> <p>Niche Sectors:</p> <p>Engineering machinery and equipment (renewable energy), Labour-intensive</p>	<p>Industries for Transforming Export Structure:</p> <p>Engineering Industry, Chemical Industries, Textile and Clothing Industry, Information Technology & Software Industries, Building Material Industry, Craft & Traditional Industries.</p> <p>Industries for Increasing</p>

	<p>consumer electronics, Automotive components, Life sciences, Biotechnology, ethnic products.</p>	<p>Added Value: Engineering Industry, Textile Industry, Agricultural Industry, Natural Products Based Industries, Iron & Steel Industries, Furniture Industries, Leather Industry</p> <p>Industries For The Integration Of Local Value Chains: Recycling industries (especially industrial & agricultural waste), Packaging Industries, Plastic Industries, Mining Industries, Agricultural Industries, Building Materials Industries, New and Renewable Energy Industries, Industries Feeding Engineering Industries, Building Materials Industries</p>
Type of Intervention	Vertical (it's arguable that the long of list of sectors makes it resemble a horizontal	Vertical (it's arguable that the long of list of sectors makes it

	approach	resemble a horizontal approach
Place-based Focus	The strategy didn't explicitly lay out a place-based focus, it did not incorporate place-based indicators or a dimension of focus on regional inequality	<p>The strategy includes a place-based focus aims to achieve <i>“a balance between the goals of foreign trade and industrial development and the goals of regional, social and environmental development”</i></p> <p>The strategy breaks down governorates into three categories and selecting a theme for the targeted interventions under these categories.</p> <p>- Economic Diversity:</p> <p>Enhancing industry and promoting value-added industry for Giza, Alexandria, Cairo, Qalyubia, Sharqiya Damietta, Suez, Portsaid and El-Gharbia</p>

		<p>-Economic Complexity:</p> <p>Industrial diversification based on the governorate's enablers; increasing production diversity; encouraging new economic sector for Beni Suef, Dakahlia, Ismailia, Menoufiya</p> <p>-Comprehensive Development: Activating economy by developing infrastructure, human capital, business, focusing on industries conforming to governorates nature and potentials Activating economy by developing infrastructure, human capital, business, focusing on industries</p>
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		<p>conforming to governorates nature and potential for Asyut, Minya, Fayoum, Beheira, Kafr El-Sheikh, Qena, Sohag , Luxor, New Valley, Matrouh, North, South Sinai, Red Sea, Aswan</p>
Strategy Framework	<p>The strategy was broken down to 3 phases; short-term, medium-term, and long-term.</p> <p>The first phase to be carried out in the short term should have as its objective the increase in exports and employment. In the medium term, the objective will be enhancing industrial efficiency by building up the necessary institutions for high quality industrialization. Finally, the building of innovation capacity will be the target for the long term.</p>	<p>The strategy was based on 5 pillars; (1) Industrial development, (2) SMEs and Entrepreneurship Development, (3) Exports Development, (4) Upgrade of Technical and Vocational Education and Training and (5) Governance and Institutional Development</p>
Supporting Firm	No clear identification of supporting partner	Boston Consulting

Despite the 12-year gap between the two strategies, both reiterate similar objectives related to economic growth, exports, and the shift toward medium- to high-tech products. Both strategies emphasize the importance of attracting investment and integrating into global value chains. They also focus on education and skill development, as well as infrastructure, to achieve these goals. In terms of sector coverage, both strategies address a broad range of industries, suggesting a more horizontal rather than vertical approach to Industrial Policy. However, while the 2006 document emphasizes strengthening the institutional framework to support industrialization, the 2016 document focuses on leveraging local resources and addressing regional needs through a place-based approach to drive industrial development.

Although there is existing literature analyzing some of the outcomes of the 2006 strategy (Loewe, 2013), literature and reports analyzing the 2016 strategy is particularly scarce. This lack of literature may be due to interview research findings indicating that the 2016 strategy was not fully executed. Consequently, while it is arguably a positive thing to incorporate a place-based approach in the strategy design given the literature on the positive impact it could result in, there is little available information on how it was translated into policies and implemented at the governorate level. It is also important to note that place-based focus performance is not consistently positive in different contexts, hence, further research is needed to understand its impact within the Egyptian context.

4.3 Ongoing National Efforts in Place-Based Approach in Industrial Development

Since the end of the 2016 Industrial strategy in 2020, Egypt hasn't been following a specific published strategy, but rather efforts in line with the 2030 Agenda. Some of these efforts involve industrial policy instruments that can be viewed as adopting a place-based approach to industrialization. This is due to their geographic focus on specific areas, aiming to drive industrial development in particular regions. These efforts are consistent with the literature that examines various place-based industrial policy instruments, which emphasize tailoring industrial strategies to the unique characteristics and needs of specific locations. These instruments include the following:

- **Free Zones:** The Egyptian free zones program began in the mid-1970s with the establishment of zones in Port Said, Suez, Alexandria, and El Nasr City. The Ismailia zone was established later in 1979 and Damietta in 1992, while Media City was established in February 2000. There are **currently 9 public free zones** spread all over the country, in the cities of (Alexandria “Al Amerya” – Cairo ‘Nasr City” – Port Said – Suez “3 sites: Port Tawfiq, El Adabeya and Attaqa – El Ismailia – Damietta – Shebin el Kom- The Egyptian Media Production City – Qena “Qeft city”) (GAFI, 2024). One of the objectives of free zones as set out in “Development of Free Zones in the ESCWA Region,” published in 1995 is to establish new industries that would benefit from local resources in each province. **Free zones are subject to the provisions of Investment Law No. 72 of 2017**, its executive regulations and their amendments, and the free zone management system regulations issued by Minister of Investment Resolution No. 39 of 2019, and its implementation is supervised by the General Authority for Investment and Free

Zones. The free zones are subject to special tax, customs and monetary provisions that allow for exemptions from customs duties, value-added taxes or other taxes given fulfillment of exemption criteria of operating in a free zone. Other than public freezones, private freezones also exist. Private free zones are granted when project must be situated outside public free zones if the project's economics and activity require it to be located in specific areas. The private free zone site may be owned or rented by the investor, and this location is essential to leverage advantages

- **Special Economic Zones:** Egypt has two special economic zones, the Suez Canal Economic Zone and the Golden Triangle which are each established by a special law and run by an independent authority. SEZONE is the first economic zone with a special nature to be established in Egypt by law 83 of 2002 for the Economic zone of special nature. It's located in the Sokhna area and adjacent to the Sokhna Port near the southern entrance to the Suez Canal. Companies operating in the zone are not focused on a particular sector, and enjoy reduced Corporate Tax Rates, Customs and Duty Exemptions, and VAT Exemptions. Its main objective is leveraging the location to attract investment and boost exports. Beside the SEZONE, Egypt established the Golden Triangle Economic Zone (GTEZ) in 2017 and is located in the Eastern Desert. The region is considered one of the richest areas of mining sources in Egypt accounting for 75% of the country's mining minerals. The announced plan for the region is to divide it into several activities, including industrial, agricultural, tourism, and renewable energy, and it aims to contribute to the development of the Upper Egypt region.
- **Industrial Zones:** Egypt has 147 industrial zones, most of which are concentrated in the Greater Cairo area. Alexandria comes in second place, followed by Upper Egypt governorates, according to data from the General Authority for Free Zones and Investment (GAFI, 2024;

Ministry of Trade and Industry, 2023). The concept of industrial zones originated with the establishment of new cities of 10th of Ramadan and 6th of October in the late 1970s, each with their own industrial zone. Industrial Zones generally are not entitled to special incentives, but rather incentives stipulated in the investment law. The Industrial Zones are run by different stakeholders: Governorates, Authority for New Urban Communities, Ministry of Industry under the Industrial Development Authority.

- **Investment Law 72 of 2017 Special Incentives:** Investment Law 72 of 2017 marked an unprecedented introduction to place-based incentives, compared to its predecessor Law 8 for 1997. In Article 11 of the law, it stipulates special incentives granted as a deduction from the net taxable profits as follows: A 50% discount on the investment costs of sector (A), which includes the geographical areas most in need of development according to the investment map, and based on CAPMAS statistics, and according to the distribution of investment activities as indicated by the executive directives of this law. A 30% discount on the investment costs of sector (B), which includes the rest of the Republic, according to the distribution of investment activities, for the following investment projects: (1) Labor-intensive projects in accordance with the criteria stipulated in the executive directives of this law (2) Medium and small enterprises (3) Enterprises that depend on or produce new and renewable energy (3) National and strategic projects determined by a decree of the Higher Council (4) Tourism projects specified by a decree of the Higher Council (5) Electricity production and distribution projects that are determined by a prime minister decree based on a joint proposal from the concerned minister, the minister concerned with electricity affairs, and the Minister of Finance. (6) Projects which exports their production (7) Automotive industry and its feeding industries (8) Wood industries, furniture, printing and packaging, and chemical industries (9) Manufacture of antibiotics,

oncology drugs and cosmetics (10) Food industries, agricultural crops and agricultural waste recycling (11) Engineering, metallurgical, textile and leather industries.

In 2023, Decree No. 77 of 2023 was issued granting new tax incentives to the industrial investment projects and their expansions in the form of cash incentive equivalent to a percentage of the income tax due on the Project. The decree introduces a spatial dimension to eligibility that echoes the one introduced in the law itself, and it designates specific geographical areas for eligible projects. The geographic areas as covered under the Investment Law includes: the Suez Canal Special Economic Zone, the Golden Triangle Special Economic Zone, the New Administrative Capital Zone, South of Giza governorate, Governorates affiliated to the Suez Canal which are Port Said, Ismailia, Suez, border governorates, including the Red Sea governorate from south Safaga, Upper Egypt' governorate and other areas that are in most need for development as decided by the Prime Minister or remote areas determined by the Cabinet, or new urban communities, industrial zones, investment zones or technological zones.

4.4 Stakeholder Mapping for Industrial Policy Implementation

State bureaucracy is one of the key actors for Industrial Policy and its implementation (Grumiller & Raza, 2019). The state bureaucracy is largely composed by a heterogeneous body of “...government agencies and organizations with different funding and areas of responsibilities, varying degrees of capacities and capabilities and often representing diverging political and economic interests” (Grumiller & Raza, 2019). The role of stakeholders in Egypt's Industrial Policy has undergone significant transformation over the years, mirroring shifts in policy focus and governance structures.

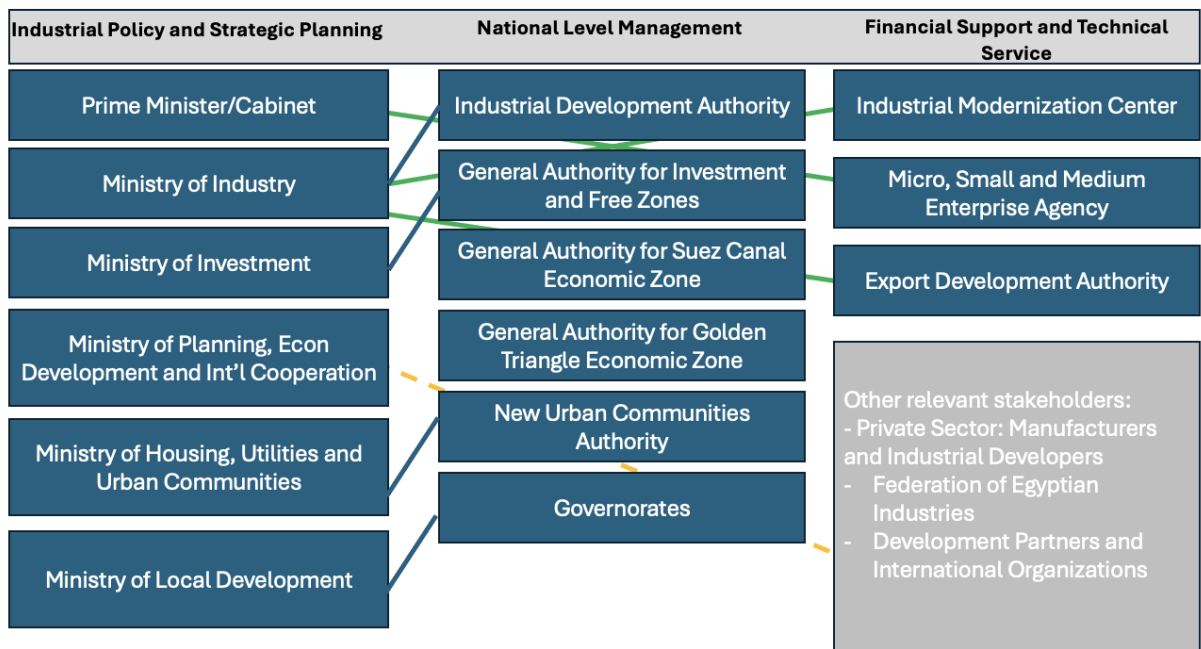


Figure 3 Developed by Author, and adapted from GEIPP (2022) stakeholder classification

Government stakeholders involved in Industrial Policy planning and implementation in Egypt can be categorized into three main groups: (1) central authorities responsible for strategic planning, (2) entities managing and implementing policies at the national level, and (3) financial and technical support institutions. Beyond these, key players such as private sector

manufacturers, industrial zone developers, the Federation of Egyptian Industries, and development partners also hold significant roles in driving Industrial Policy.

The stakeholder map highlights entities crucial to the execution of Place-based Industrial Policy instruments, identifying them as primary stakeholders due to their direct impact on policy outcomes. Meanwhile, ministries such as Education and Transport are classified as secondary stakeholders, as their roles primarily involve supporting the soft policies that are essential for the broader success of Industrial Policy initiatives

The stakeholder mapping reflects a high degree of centralization in Egypt (Elmassah, 2022). Local administration relies heavily on fund transfers for its operations and suffers from limited institutional and financial capacity (Elmassah, 2022). For instance, according to the Ministry of Finance, the budget allocation for local administration was LE 171.6 billion for the fiscal year 2020/21 and LE 185.5 billion for the fiscal year 2021/22. This allocation accounted for only 10 percent of the total budget over these two fiscal years (Elmassah, 2022). The implications of this centralization on industrial policy mean that the concentration of power and decision-making authority lies within central ministries and authorities, as depicted in the stakeholder mapping, reflecting a limited role for governorates in the policymaking process.

5. Chapter Five: Findings, Analysis and Discussion

The following chapter examines the key findings and analysis of the research based on interviews conducted with 13 former and current policymakers, as well as local and international experts. These findings address the research questions and aim to deepen the understanding of the scope of Place-based Industrial Policy in Egypt. The analysis is organized into three main themes: (1) Understanding the Scope of Place-based Industrial Policy in Egypt, (2) Challenges and Enablers in Adopting a Place-based Approach to Industrial Policy, and (3) Significance of Place-based Industrial Policy in the Egyptian Context

Focusing on the first theme, it explores the understanding of Place-based Industrial Policy within the Egyptian context. Supported by the literature, this theme dissects what constitutes "place" and attempts to identify the factors that determine what can be considered as place for Place-based Industrial Policy in the Egyptian context. It also examines the extent to which a place-based approach to Industrial Policy has been applied in Egypt and whether such a policy has been formally adopted. The second theme builds on the first set of findings in exploring the challenges that hinder the full utilization of Place-based Industrial Policy in Egypt and what can be considered as enablers. These challenges include issues related to policy design, implementation, monitoring, and evaluation. The third theme covers the significance of Place-based Industrial Policy to the Egyptian context while emphasizing on interlinks between place-based industrial policies on sustainable development considerations reflected through the Sustainable Development Goals (SDGs). This includes environmental considerations, gender considerations, and partnerships.

5.1 The Extent of Place-based Industrial Policy Implementation

5.1.1 Understanding the Scope of Place-based Industrial Policy in Egypt

The 'Place' in Place-based Industrial Policy

While Industrial Policy is a long-debated well-established and familiar concept in both policy-making and academic circles (Juhasz, Lane and Rodrik, 2023; Criscuolo et al. 2019; Cingano et al. 2022), as was evident from the interviews, its integration with a place-based approach appears to be less straightforward. When the term Place-based Industrial Policy was introduced to some interviewees, it was met with a degree of confusion. This confusion primarily stemmed from the relative unfamiliarity of the place-based focus and uncommon use of the term when discussing Industrial Policy, which addresses the unique characteristics and context of specific geographies, as opposed to commonly discussed sector-focused approach.

As defined in the contextual framework, the research follows a definition of Place-based Industrial Policy where governments intervene not only in specific industries but also in specific locations to stimulate economic growth. As such, place has no universal definition, but it depends on context in any identified territory (Alessandrini et al., 2019). A recurring point that was raised during the interviews was the **importance of clearly defining the meaning of "place"** within the context of Place-based Industrial Policy. Interviewees emphasized the need to clarify what "place" refers to, as this understanding is fundamental to the entire concept and approach of Place-based Industrial Policy. As one interviewee elaborated:

“When talking about place-based policies, we need to identify what ‘place’ is to understand the geographic characteristics and scale of resources to be analyzed”

(University Professor of Economics and Sustainability, April 2024).

Grasping what constitutes place is essential because it directly shapes how policies are designed, targeted, and implemented. As the interviewee explained, it influences the customization of policies to leverage geographic characteristics and resources.

Attempting to understand **what could constitute ‘Place’ in the Egyptian context** and based on interview analysis and desk review, research suggests a consensus that ‘Place’ in Egypt can take multiple forms. One of the forms of ‘Place’ is the local administrative unit of governance which **is the Governorate**. Egypt’s 27 governorates are each headed by a Governor who is the highest executive authority in the governorate, are recognized by the Constitution and have their own public administrative frameworks. The Governorate receives allocation of resources from the central government budget utilized for implementation of projects in infrastructure, human development and regional planning. The Governorate unit of analysis is referenced by the Ministry of Planning and Economic Development (*Now Ministry of Planning, Economic Development and International Cooperation*) when allocating funds for the annual Investment Plan for regional development, which is allocated from Chapter 6 of the government budget. Moreover, when analyzing **SDG performance at the local level through Egypt's voluntary local reviews**, this is also presented at the governorate level.

Another unit of ‘Place’ analysis used in the Egyptian context **is the economic region**, referring to Egypt's seven economic regions: Greater Cairo Region, Alexandria Region, Delta Region, Suez Canal Region, North Upper Egypt Region, Central Upper Egypt Region, and Southern Upper Egypt Region. These regions are particularly relevant when analyzing regional disparities and development progress across the country and are commonly referenced in reports from the Ministry of Planning and Economic Development (*Now Ministry of Planning, Economic Development and International Cooperation*) on regional development. However, regions lack

unified public administration authority and are treated primarily as a coordination level between the governorates, serving as a unit of analysis for regional inequality with no implementation or decision-making authority.

On the other hand, a Former Senior Official at the Industrial Development Authority emphasized the importance of focusing on regions for Place-based Industrial Policy. In his view, governorate administrative units are not always aligned with resource distribution.

“An example of this is the discrepancy between the size of the Red Sea Governorate and New Valley Governorate, which have access to the sea and the Toshka region, as opposed to Beni Suef Governorate and others with fewer natural resources. Hence, the administrative division of the governorates shouldn’t necessarily dictate the economic vision. It is important that if you’re planning for the whole country, regions are the appropriate unit of analysis due to the concentration of resources in each region. For example, Toshka and Owaynat for agriculture, and Siwa for handicrafts and creative industries. Governorates can be responsible for implementation, but planning is best conducted at a regional level where the resources are clear.” (Former Senior Industrial Development Authority Official, August 2024)

As can be seen through the interviews, the Egyptian context can be subject to different ‘Place’ interpretations. It was elaborated during the interviews that place has taken different forms and definitions over the years, whether regional, governorate-level, industrial zone, territorial, or even relating to global value chains such as the Suez Economic Zones (Professor of Political Economy, August 2024). In addition, an important consideration when determining the "place" is the objective of the policy as it ensures alignment between policy goals and the unique characteristics of the location.

Despite the varying opinions on the approaches to identifying place, there is a majority consensus throughout the interviews on its **importance as a factor in Industrial Policy design, one that complements the sector-based approach** in a country like Egypt that faces regional disparity challenges affecting local economic development, as well as lag in industrialization agenda.

“Whether the place-based approach is focused on the governorate level or regional level is not as important as ensuring the correct integration of the place-based approach into the industrial strategy that leverages local resources and pushes the industrial agenda forward”
(Parliament Member, August 2024).

This reflects the importance of ensuring that place-based approaches are effectively integrated into the broader industrial strategy, regardless of whether the focus is on the governorate or regional level. The idea of leveraging local resources and tailoring industrial policies to the specific needs of different areas to achieve regional equality and economic growth aligns with the growing literature and global practices on adopting a place-based approach to Industrial Policy (Bailey et. Al, 2023; Rodrik, 2004; World Bank 2009; Daley & Lancy 2011).

5.1.2 The Extent of Place-based Approach in Industrial Policy Application in Egypt

Fragmented Path and Scattered Efforts: Place-based Industrial Policy in the Egyptian Context

Examining the extent of place-based policy application in Egypt, it is clear that while its effectiveness and efficiency require further investigation, place-based policy approach is not a new concept to the country. An Industrial Policy expert highlighted that Egypt's use of place-based approaches has been particularly evident within its regional development policies and less in the sphere of Industrial Policy development (Industrial Policy Expert, April 2024). This has also been

echoed during 3 other interviews, highlighting that the place dimension has been a subject of focus particularly for development policies. This suggests a disconnect between place-based policies and industrial policy, as place-based policies are not necessarily implemented with industrial objectives in mind. Recently, social place-based policies have gained prominence in Egypt, exemplified by the Hayah Karima initiative, which focuses on social interventions through a place-based approach (Industrial Policy Expert, April 2024).

This finding aligns with the historical record of place-based approaches in development. A report by the Egyptian Center for Strategic Studies in 2021 traces the origins of regional or spatial development initiatives in Egypt to the issuance of law 70 for the year 1973 on national planning, which was later repealed in 2021 (Ashour, 2021). The report further notes that prior to the 1970s, policies in Egypt did not incorporate the concept of regional differentiation, often overlooking the specific needs of each region (Ashour, 2021). The law had introduced sectoral and administrative distribution funding for economic and social development plan projects and specified three levels of planning at the national, regional and local levels. The shift towards integrating regional planning into national strategies for development has arguably become more prominent with the emergence of the Sustainable Development Goals with the 2030 Agenda in 2015, which paved the way for Egypt's Vision 2030 which was issued in 2016 (Elmassah, 2022).

Motivations behind the Place-based Approach in Industrial Policy

The concept of regional development can be seen to have had its influence as a driver to the implementation of Industrial Policy instruments in Egypt, especially the establishment of some of the industrial zones in governorates. According to one of my interlocutors:

“It is the New Urban Communities Authority that established the industrial zones to new cities such as 10th of Ramadan, 6th October, Sadat City. The Industrial Zone was built to be

attached to the new city and its intention was to create job opportunities for the city residents but for many years the employees didn't relocate, they commute, and it was lucky that they were placed on main roads. The industrial zones in upper Egypt are developed by the governorates also for social goals to create job opportunities for the governorate. And the Industrial Zones most of the time include all the industries and aren't focused on certain sectors" (Former Advisor to the Ministry of Local Development, May 2024)

In these cases, the social consideration and regional development are considered to come as a main motivation to adopting place-based approaches, and arguably at the expense of Industrial Policy. The developed industrial zones do not promote specific sectors and aren't planned to effectively leverage local contexts and resources. Hence, there is limited attention given to the potential economic benefits that could be derived from using industrial zones as a place-based industrial instrument. This was also echoed by an Industrial Policy Expert who highlighted that

"The focus of place-based development in Egypt seems to lean heavily towards infrastructure, but the emphasis on place-based industrial development is lacking. Even in the new industrial zones in Upper Egypt, occupancy rates are low, and the promotion efforts are not very effective. There's also a lack of studies identifying which industrial activities should be prioritized when developing these zones." (Industrial Policy Expert, April 2024)

While some of the Industrial Zones have been built driven by social and development goals, the interviews also highlighted that other industrial zones follow a market driven approach instead. For instance, one interviewee commented:

"What we can see is, the place-based approach is either market driven where the best place for production and industrial viability is, or driven by social goals, but the two drivers are

equally important. Taking a market-based approach with social considerations” (Former Advisor to the Ministry of Local Development, May 2024)

A third motivation was also identified during the interviews which is the strategic political motivation. Focus on Industrial Policy in certain areas occasionally comes as a top-down leadership decision for political considerations and for areas with strategic purpose. As a Former Official at Suez Canal Authority highlighted:

“Look at Sinai for instance, and Suez Canal Economic Zone, there development serve a political purpose and priority and have been selected in a top-down manner” (Former Official at Suez Canal Authority)

This strategic political motivation can shape the prioritization and implementation of industrial policies, influencing which areas receive attention and resources based on their strategic value or political significance rather than purely economic or developmental criteria. The political motivations come in line with the political stream in the Multiple-Streams Approach (MSA) which argues that political motivation is highly influential in driving industrial policy in centralized countries (Mu, 2018).

Features of Place-based Industrial Policy in Egypt

Egypt’s approach to Industrial Policy exhibits multiple place-based features which take shape in the form of Place-based Industrial Policy instruments, strategies with place-based approach, and a place-based mentality. Starting with the instruments, the findings from the interviews suggest that **direct instruments** include industrial zones, free zones, special economic zones, and place-based incentives under the Investment Law. Another feature that was mentioned in the interviews is the 2016 strategy which utilized a place-based approach, however, experts from the Federation of Egyptian Industries, Parliament and Ministries have all asserted that the strategy

didn't enter into force in terms of implementation, unlike the 2006 strategy. An expert at the Federation of Egyptian Industries highlighted that:

“Egyptian governments are highly capable of issuing strategies, yet they fall short when it comes to the implementation” (Federation of Egyptian Industries Expert, August 2024)

While the reason to why it didn't enter into force is unclear, a member of parliament clarified it could be the inability and lack of capability to turn strategy into policies and action plans (Parliament member, August 2024).

Another feature that emerged in the interviews is the **place-based mentality**. A former senior employee of the Ministry of Trade and Industry highlighted that a "place-based mentality" has gained attention over the years within the government's approach to Industrial Policy (Former Senior Official at the Ministry of Trade and Industry, May 2024). According to the interview, the government has increasingly recognized the importance of tailoring policies to the unique characteristics of specific regions, rather than applying a one-size-fits-all strategy. This shift in thinking is clear in regional development initiatives but also in industrial decisions being taken.

In addition, this mentality can to grow in industrial policy more recently, as a Former Advisor to the Ministry of Local Development noted, there has been a growing consideration of proximity to local resources when planning industrial projects (Former Advisor to the Ministry of Local Development, May 2024). An example of this is the establishment of an industrial zone for aromatic plants in Beni Suef, which was chosen for its strategic location near the Fayoum and Minya governorates. These areas are known for having the largest cultivated areas of medicinal and aromatic plants in the country, as well as a concentration of SMEs working in this industry. By locating the industrial zone in close proximity to these resources, the interviewee explained that government aims to enhance the efficiency and sustainability of production processes, support

local businesses, and capitalize on the region's natural strengths (Former Advisor to the Ministry of Local Development, May 2024). This approach reflects a mentality of a more context-sensitive application of Industrial Policy, aligning economic development strategies with the specific needs and resources of each region.

Fragmented Approach towards Place-based Industrial Policy

While Egypt has adopted measures that align with the principles of Place-based Industrial Policy, particularly in terms of policy instruments and direction as examined in the contextual framework, the majority of interviewees believe that there is no comprehensive or clearly defined Place-based Industrial Policy in place. Instead, they see the current efforts as fragmented and lacking the coherence needed to be considered a fully developed policy.

The key issues identified by the interviewees include the absence of a clear Industrial Policy strategy and objective for these interventions, and a lack of specific targets to measure their effectiveness and efficiency. Without these critical components, the various initiatives, appear fragmented at the conception and implementation level, as stated by one of the interviewees:

“I can’t say we have a clear Place-based Industrial Policy per se, we use place-based industrial instruments but for me to say it’s a policy, we need to have a coherent Industrial Policy targeting specific sectors in the first place, and determine its objectives and targets, and use place-based industrial instruments to achieve these targets.” (Parliament Member, August 2024)

This, along with the mapping of the different instruments and strategies in the previous sections, suggest that place-based instruments are possibly used sporadically rather than strategically deployed to drive local economic development and industrial development. The significance of

this is reflected in the literature on Place-based Industrial Policy. Bailey et al. (2023) highlights the importance of understanding different ways of how industrial policies function together to educate policymaking process, while Xiong et al. (2023) explains the need for coordinating various policy instruments across different levels of government to achieve ambidexterity in industrial upgrading (Bailey et al., 2023; Xiong et al., 2023).

5.2 Challenges and Enablers of Place-based Approaches for Industrial Policy

The potential of Place-based Industrial Policy in Egypt is conditional to understanding and addressing the challenges that hinder its design and implementation, as well as recognizing the opportunities that could be leveraged. Despite Place-based Industrial Policy's potential to reduce regional disparities and stimulate local economic development, several challenges have been highlighted during the interviews that would impede the policy's full utilization. These barriers can be categorized into three main areas: strategy, implementation, and data availability. On the other hand, opportunities exist which if effectively harnessed, could enhance the impact of Place-based Industrial Policy. By addressing these challenges and capitalizing on available opportunities, Egypt can better utilize Place-based Industrial Policies to promote balanced and sustainable local economic development.

5.2.1 Challenges of Place-based Industrial Policy in the Egyptian Context

Absence of Comprehensive Industrial Strategy and Policy Design

A recurring theme across 12 out of the 13 interviews is the absence of a clear and comprehensive industrial strategy that is published and serves as a master plan for industrial

development in Egypt. Since 2020, Egypt has not had a formal industrial strategy document, instead, there have been various announcements by officials outlining policy directions and visions for industrial development (Ahram Online, 2024). Notably, since 2022, amid the country's economic challenges, the government has made several announcements regarding its Industrial Policy as will be examined in this section.

Addressing the country's position on its Industrial Policy and localizing industries, Egypt's Prime Minister announced that the country's support for localizing industries is part of its efforts to meet domestic demands (Ahram Online, 2024). In line with this approach, the Minister of Industry announced plans for increasing the manufacturing contribution to GDP from 16% to 20% in the short term (Ahram Online, 2024). With regards to exports, Egypt's Prime Minister announced the goal increase exports to more than \$146 billion by 2030. (Ahram Online, 2024). In addition, the Ministry of Industry announced implementing five pillars to enhance the industrial sector: optimizing imports to focus on local market needs and producing high-quality local alternatives; maximizing exports and using raw materials and reputable Egyptian industries to boost foreign currency supply and support the economy; eradicating unemployment through job creation; improving the skills and capabilities of the workforce to enhance product quality and attract foreign currency; and facilitating the re-operation of struggling factories through streamlined procedures. (Ahram Online, 2024)

However, a recurring concern raised during the interviews is the absence of a clear, comprehensive industrial strategy that is widely recognized and supported. The announced efforts by the government are not anchored in a coherent strategy that includes clear objectives, priority sectors, methods for achieving goals, targets, key performance indicators (KPIs), and mechanisms

for monitoring and evaluation. As explained by a Senior Official at the Ministry of Planning, Economic Development and International Cooperation:

“There isn’t one plan that everyone knows and is working towards, from the smallest to the biggest official. The objective is not clear, and the roadmap isn’t clear. There are efforts but these efforts can better be tied to something bigger, and have KPIs set for it” (Senior Official at the Ministry of Planning, Economic Development and International Cooperation, August 2024)

The lack of a comprehensive industrial strategy and ways to measure the success of industrial policies upon implementation has been identified across the interviews as a key challenge. The lack of a clear strategy has also meant an unclear approach for selecting sectors for government interventions. A member of Parliament highlighted in an interview that the choice of sectors for intervention require further study on sector priorities in line with the country’s objectives and a comprehensive strategy (Parliament Member, August 2024). The country’s recent focus on the production of mobile phones and chips further explains this point seeing that no announced studies have been presented on the choice of sectors (Parliament Member, August 2024).. This aligns with the literature on the “picking the winners” government dilemma in industrial policy, and the importance of having promotion activities done in a responsible and accountable manner (Rodrik, 2004).

According to the findings, the lack of a strategy led to a fragmented approach where initiatives can lack coordination and fail to achieve their intended outcomes. Without such a strategy, it is difficult to capture a cohesive direction for industrial development, and stakeholders lack a common understanding of goals and performance metrics. As a result, there is a significant gap in ensuring that all efforts are aligned and effectively measured.

The lack of comprehensive Industrial Policy planning has also inherently been reflected in the Place-based Industrial Policy planning. Former Advisor to the Ministry of Local Development articulates the challenge in the following:

“The problem is there hasn’t been proper industrial planning in Egypt where the country knows where it would, for instance, have industrial zones for which industrial sectors. There is no master plan.” (Former Advisor to the Ministry of Local Development, May 2024)

Hence, one identified challenge in having Place-based Industrial Policy is the absence of a clear and well-informed industrial strategy that addresses the approach to Industrial Policy by the government. As elaborated in an interview with a Member of Parliament:

“The strategy should identify how to achieve the objectives, whether through place-focused or sector-focused approaches, or different tracks in parallel, and how to expand. Increasing the manufacturing base is very important, and both tracks are complementary.” (Parliament Member, August 2024).

There is a consensus that one of the key challenges is the unclear direction of Industrial Policy in Egypt, highlighting the need for a comprehensive and coherent master plan. Without a clear industrial strategy, efforts to implement place-based industrial policies may lack focus and coherence, ultimately hindering their effectiveness and the achievement of long-term goals.

Overlap in Governmental Mandates and Lack of Coordination

Moving beyond the strategy, there are challenges to implementation of strategies even when its set. Another important theme that emerged as a challenge to Industrial Policy in general and hence, place-based industrial policies, is the **overlap in mandates when it comes to Industrial Policy implementation**. Four Interviewees highlighted that the different stakeholders

concerned with Industrial Policy work usually in separation from one another. From instance, one interlocutor mentioned:

“There are isolated islands within the government rather than combined efforts. You will find the Suez economic zone has an agenda, separate from the MTI agenda. I don’t feel there is a consolidated effort to achieve one goal. It comes from top down; a goal that we want to achieve is announced by the leadership, say we want to increase manufacturing base, we want to increase exports, so each entity works on its own to achieve this goal”
(Former Senior Ministry of Trade and Industry Official, May 2024)

While the Industrial Development Authority (IDA) in its most recent structure was established as an independent entity under Law 95 of 2018 and is legally empowered to plan and implement industrial policies, overlapping mandates with other governmental entities significantly diminish its authority. This overlapping of mandates undermines the IDA's ability to effectively implement industrial policies and integrate a place-based approach into industrial planning and execution. One interviewee highlighted that this issue is most evident in the initial and critical step of industrial activity: land allocation. They explain:

“Take the IDA as an example, the IDA is mandated with industrial planning and land allocation, but the IDA doesn’t own the land. You can be surprised that the National Center for State Land Use allocated a specific land for industries, but what if the IDA didn’t think this was the right location. There is also the issue of land jurisdiction...you see... land jurisdiction goes to one of these authorities depending on the land: New Urban Communities Authority, Governorates, General Authority for Free Zones and Investment, and some lands not in demand is given to IDA, so while the IDA should plan it doesn’t have the full jurisdiction over the land. Then look at the utilities, IDA is responsible for

allocating the land that is originally under the jurisdiction of other stakeholders, so it can't question any delays, it can't ask why water was late or infrastructure...it's not their land. And when it comes to governorates, there used to be a fund under the IDA to provide utilities to the governorates, so again, the land is not under the IDA jurisdiction, but when money is allocated by the parliament to go to the fund, the IDA will disburse the money to each governorate—but the resources aren't enough, and the plan wasn't coherent. The fund is no longer present, but the issue with the allocation of funds to each governorate remains.” (Former Senior Industrial Development Authority Official, August 2024)

The challenges surrounding land allocation illustrate the ongoing power struggle between various entities in coordinating planning, allocation, and resource management. The lack of clear jurisdiction and coordination among these entities creates inefficiencies that pose a challenge to the integration of place-based industrial policies into industrial development. As a result, the IDA's capacity to drive cohesive and well-coordinated Industrial Policy is significantly constrained, impeding the realization of strategic industrial objectives.

This was also echoed by *Former Advisor to the Ministry of Local Development*, who highlighted that the overlap in mandate is hindering any progress in industrial development. He stressed the need for a clear delegation of authority, stating, *"The IDA needs to be given full authority and the necessary resources. Allow it to develop a comprehensive strategy and execute it effectively"*(*Former Advisor to the Ministry of Local Development, May 2024*). This statement underscores the critical need for streamlined governance and resource allocation to empower the IDA in leading and implementing a cohesive industrial development strategy. Without such empowerment, the potential for meaningful progress remains severely limited.

Another important point beside the overlap in mandates is the lack of coordination between the entities. Coordination between stakeholders is essential for the implementation of “hard” and “soft” policies (Alessandrini et al, 2019). One of the cases that shows the lack of coordination is the disconnect between education and skill development interventions and the broader industrial development efforts (Parliament Member, August 2024). Despite the importance of aligning workforce capabilities with the needs of emerging industries, a Member of Parliament elaborated that there is insufficient linkage between technical education and the specific demands of the industrial sector in certain regions (Parliament Member, August 2024). This misalignment leads to a skills gap, where the workforce may not be adequately prepared to meet the needs of industries. Infrastructure development is another example where the lack of coordinated planning between infrastructure projects and industrial zones results in utilized resources. For instance, Former Senior Official at the Industrial Development Authority “*some industrial zones are completely inaccessible; you'd require a parachute to reach them*” (Former IDA Senior Official, August 2024). Interviewees emphasized that without coordination the implementation of industrial strategies would be compromised as the critical elements including education, skills development, and infrastructure remain isolated efforts rather than enablers to industrial development. In line with the literature, challenges in coordination require governments to use horizontal policy instruments in a place-based manner to address regional disparities by specifically targeting existing gaps in lagging regions (Bailey, 2023). These gaps include hard and soft infrastructure, skills and capabilities, and strength and integration of local educational institutions and research bodies, as well as in the extent of local governance (Bailey, 2023).

Institutional Capacity for Industrial Policy

Egypt, like many developing countries, is characterized by high level of bureaucracy and weak institutional capacity (Loewe, 2014; Elbaradei, 2006). The institutional capability in designing and implementing Place-based Industrial Policy was mentioned repeatedly across the interviews and comes in line with the literature that emphasizes the role of institutional capability for effective Industrial Policy. Ferraz et Al. (2014) explain that “The level of institutional capability – that is, the ability of (mostly) public institutions to deliver a proposed set of actions at a specific time – defines the potential scope of an effective Industrial Policy” (Ferraz et. Al, 2014, p292). This illustrates the importance of institutional capability for the effectiveness of Industrial Policy.

There is common consensus amongst interviewees that the local level insufficient capacity to **plan independently** due to lack of necessary expertise. An example for this was referenced by experts at the Federation of Egyptian Industries who highlighted the challenges faced by the New Damietta Furniture City. In particular the latter interjected:

“This project was planned on a governorate level, the governor successfully managed to pitch the project and how it will advance the furniture industry in the city. But part of planning is the ability to do a feasibility study that takes into consideration all the dimensions. The project overlooked the social dimension, the furniture workers have their shops beneath their homes and have roles distributed amongst their families. You’d find the wood done in one place and the sewing done in another shop down the street all in the same block. The New Damietta Furniture city didn’t take into perspective the social dimension, people’s lives, and hence it’s struggling with moving people to the shops there.” (Federation of Egyptian Industries Expert, August 2024)

Despite the initiative coming from the local governorate level to establish the New Damietta Furniture City, it failed to account for these social dynamics and the way of life of the workers, which has led to difficulties in persuading people to relocate to the new facilities. This is due to Building on the experience of the New Damietta Furniture City, interviews reveal that limited institutional capabilities are a common issue in developing countries, as noted by an International Industrial Policy Expert:

“The key issue is having a team of people in government that is dedicated to doing Industrial Policy and have access to the political and financial resources, Industrial Policy success stories in East Asia, they had pockets of effectiveness in doing Industrial Policy. Qualified people who have access to political leader to help them unblock the blockages and overcome the vested interests protecting the status quo and coordinate different parts of govt to do what they need to do” (International Expert, May 2024)

This highlights the importance of enhancing institutional capabilities in Industrial Policy and the existence of qualified individuals who were not only knowledgeable but also had direct access to political leaders. This comes in line with Rodrik (2004) who explained that competent bureaucracies are a scarce in most developing countries, however, they have the ability to build pockets of bureaucratic competence (Rodrik, 2004, p37)

Comprehensive Data Framework

Another important theme that emerged during the interviews is the challenge posed by the availability and quality of data on local industry and resources, which is crucial for guiding Place-based Industrial Policy. Although Egypt maintains a database of manufacturing activities at the governorate level, there is a pressing need to gather more granular data at the local level. This includes the detailed mapping of resources, industrial activities, and social indicators within each

governorate or region, with updates provided on a regular basis to ensure relevance and accuracy. One interviewee emphasized the importance of this data for effective local development:

"For local development, you need comprehensive data on each governorate, including the number of factories and what exactly they are producing. Across the world, industry classification systems are used, and each industrial activity is assigned a code. It is crucial that this system is unified across all stakeholders." (Industrial Policy Advisor, April 2024)

This comment highlights a gap not only in data collection but also in the harmonization of industrial activity classification across different entities. The lack of a standardized classification system across the different government stakeholders poses challenges to how industrial data is recorded and shared among stakeholders. Without a unified and accurate classification system, it becomes difficult to accurately assess the industrial landscape, make informed decisions, and coordinate efforts across different regions and sectors. This hinders the ability to effectively implement place-based industrial policies, which rely heavily on precise and consistent data to tailor interventions to the unique needs and opportunities of specific localities.

5.2.2 Enablers of Place-based Industrial Policy in the Egyptian Context

Throughout the interviews, and contrary to the negative sentiment surrounding centralization, centralization and the synergies between different stakeholders in the planning and implementation of Place-based Industrial Policy was highlighted as an enabler in the Egyptian context. These factors were seen to play a role in shaping the effectiveness and implementation of industrial policies tailored to specific regions.

While centralization is often viewed as a challenge, the findings suggest that in the case of Industrial Policy in Egypt centralization was emphasized as an enabler of Place-based Industrial Policy, with interviewees noting the importance of the interplay with the bottom-up approach.

Given the government's limited resources and capacity, there was a consensus that centralized planning is vital, particularly in light of the challenges faced at the local level. The international expert on Industrial Policy, articulated this point:

"Centralization could be useful because resource constraints are so severe in developing countries. If you want to implement policy effectively and develop priority industries, you need to concentrate whatever scarce resources you have into a centralized unit. If you try to decentralize, you'll end up spreading those scarce resources too thin." (International Expert, May 2024)

Despite the acknowledgment of the role centralization can play in overcoming scarce resources, interviewees also stressed the necessity of local-level participation for accurately identifying regional needs. They underscored that central planning must be complemented by local-level input and insights to create synergies between both levels, ensuring that industrial policies are not only effective but also considerate to the unique characteristics and requirements of each region.

"Local-level participation is very important for a mix between bottom-up approach and top-down with proper identification of the needs, centralized vision and mission is helpful but so is the local identification of needs so that every governorate has a plan according to the resources and needs which feeds into the national vision and mission" (University Professor of Economics and Sustainable Development, April 2024)

This idea was also echoed by a Former Advisor to the Ministry of Local Development who emphasized that *"Regional plans are very important – central planning and local planning should complement each other"* (Former Advisor to Ministry of Local Development, May 2024). This collaboration between centralized and localized efforts is seen as essential for the successful

implementation of place-based industrial policies in Egypt. In addition, the private sector's role was emphasized crucial not only for its expertise and resources but also for its ability to provide real-world insights into market demands, industry trends, and investment opportunities. As explained by an International Expert:

“Centralized governance doesn’t necessarily mean that a guy in the president’s office decide what to do, centralized doesn’t mean not bottom-up, you can have a centralized team of public policy who are working very closely with the private sector and local industrial park to understand the needs, it’s a different way of working it doesn’t have to be top down”
(International Expert, May 2024)

According to the findings, involving private sector stakeholders can enable place-based policies to be aligned with economic realities, enhancing their relevance and impact. This would require efforts from the Egyptian government to ensure private sector engagement, specially that in two interviews the ways of private sector participation had been questioned. An Industrial Policy Expert highlighted *“...you’ll find manufacturers suffering from problems and they don’t know how to communicate it to the stakeholders. The Federations have limited functions of policy advocacy”* (Industrial Policy Expert, April 2024). This was also brought up by an Economics and Sustainability Professor who highlighted that *“...collaboration with the private sector happens on a very senior level, with influence big players in the Egyptian private sector, powerful governors”* (University Professor of Economics and Sustainability, April 2024).

The alignment between the central and local levels has been explored in the literature and explained to be critical in this process. The vertical and horizontal policy mix and coordination between central and local government is necessary to deliver industrial upgrading (Bailey et al, 2023). Countries like China have been relatively successful in coordinating a range of policy

instruments across different tiers of government and consequently have achieved progress in industrial upgrading process (Xiong et al, 2023).

5.3 Significance of Place-based Industrial Policy in the Egyptian Context

Across the majority of the interviews, there was a consistent emphasis on the importance of Industrial Policy adopting a place-based approach, tandem to a sectoral approach, to achieve positive outcomes both locally and nationally in Egypt. This approach, according to the interviewees, **when combined with sectoral prioritization, enables targeted interventions that address specific regional needs and capitalize on local strengths.** In line with the literature, the growing research that has shown that place-based policies can promote regional economic growth, productivity, and employment, the interviewees highlighted the possible positive impact of Place-based Industrial Policy. According to the interviews, the importance lies in its potential to address regional disparities, leverage unique place characteristics, enhance agglomeration economies and organic clusters, and develop infrastructure and human capital, as follows:

5.3.1 Addressing Regional Disparities:

Egypt has noticeable regional disparities in economic development with development gaps between the different regions. One of the Place-based Industrial Policy's ability to target lagging regions in efforts to promote economic activities and improving living standards. As explained by Former Advisor to the Ministry of Local Development

“From a regional equality perspective, it is critical to implement Place-based Industrial Policy in upper Egypt even if it has no strong industrial history and no access to

international markets.” (Former Advisor to the Ministry of Local Development, April 2024)

In addition to promoting economic activities and regional development, Place-based Industrial Policy was also seen as essential for addressing broader social issues, such as the migration of populations from rural to urban areas (Parliament Member, August 2024; Former Suez Canal Official, August 2024). By investing in the economic potential of rural and lagging areas, Place-based Industrial Policy can thus help create sustainable livelihoods and reduce the need for migration, thereby contributing to more balanced and equitable national development.

5.3.2 Leveraging Place Characteristics, Resources and Geographic Advantages for Economic Returns

In all interviews, there was consensus that by taking a place-based approach in Industrial Policy would allow leveraging geographic advantages and access to natural resources. This would also allow for optimizing the cost of transportation in cases where interventions create a viable business environment that encourages production beside source of natural resource.

“There are places with a lot of resources and when you produce away from these resources you are increasing the cost and decreasing the competitiveness for example, the Marble industry, most of the production is located in upper Egypt or the red sea, while the production itself is focused in Cairo in the area of Shaa El Teaban. So, you bring the raw materials all the way to Cairo for the companies to use. They do that because the infrastructure in Cairo and so is the skilled labor. Of course, relocating cost isn’t

convenient even if there are incentives, it could be taken into consideration for new production or expansion.” (Industrial Policy Expert, April 2024).

This was also echoed by Former IDA Senior Official, which explains the importance of location in competitive advantage of companies (*Former IDA Senior Official, August 2024*). This is due to the transportation cost that is factored in upon poor choice of location.

5.3.3 Supporting Agglomeration Economies and Clusters

An important point that was raised during 5 of the interviews conducted was on Egypt’s clusters in the different governorates. Egypt has a long history of productive clusters, distributed among nine manufacturing and handicrafts subsectors. Two types of clusters can be differentiated in Egypt: industrial zones and organic clusters. This differentiation aligns with the literature that highlighted the importance making the distinction between organic clusters and industrial zones, as both allow for agglomeration (Abdelaziz et al, 2018). One interviewee explained:

“Clusters have always been there in Egypt, developing in an organic nature and you can say that the country was aware of that from the very beginning. The government saw the importance of clusters and started to develop industrial zones to promote industry.”

(Former Official at Ministry of Trade and Industry Expert, May 2024)

Agglomeration has been proven to have positive externalities and positive influence on productivity obtained due to the availability of more productive workers or knowledge spill- overs in certain cities (Beeson, 1992). Egypt focused studies have also found strong evidence for the existence of agglomeration in Egypt as “productivity spillovers gained from agglomeration measures outweighed the negative effects of competition”(Badr, Rizk & Zaki, 2019).

Despite the existence of the clusters and acknowledgement of their huge potential, yet they are faced by various bottlenecks and lack sufficient targeted incentives. This was explained by an Industrial Policy Expert who stated that:

“...there are a lot of economic activities that can be tied to the place, especially around clusters but the attention towards these details might not be sufficiently there”

(International Development Organization Industrial Policy Expert, April 2024)

The lack of attention is consistent with the literature in developing countries which highlights that while clusters are ubiquitous in most developing countries (Sonobe and Otsuka 2006), they are largely off the official radar screen, since governments often pay more attention to large firms (Abdelaziz et al, 2018). The importance of Place-based Industrial Policies in incentivizing clusters, both organic and industrial zones have thus been flagged during the interviews.

5.3.4 Skills Development and Infrastructure

The shared tools between Place-based Industrial Policy and place-neutral industrial policies include skill development interventions and infrastructure investments. Both skill development and infrastructure have been highlighted in the interviews to be utilized in a place targeted approach as important factors in the country's economic performance which are impacted by Place-based Industrial Policy interventions.

Place-based Industrial Policy encourages skill development and infrastructure development aligned with the needs of local industries. As explained by Alessandrini et Al (2019) “...the task {Place-based Industrial Policy} should be aligned with the needs of industry player e.g adapting the educational system to provide a skilled labor force for the industrial sector,

developing location factors such as transport infrastructure” (Alessandrini et al., 2019, p65). An interviewee clarified that for skill development, it isn’t just the work of the government, as the private sector also plays a role in skill development either through training or partnerships with vocational schools. They explained:

“Place-based Industrial Policy can be considered a driver for skill development and infrastructure development, which are key for local economic development. When a large private sector investment is made in an area, it required skilled workers to work in this factory. The training isn’t necessarily done as an intervention from the government, can be done through the company itself” (Parliament Member, August 2024)

The interview findings suggest that a place-based approach enables a targeted focus on infrastructure and skill development in specific regions. This aligns with research showing that combining horizontal policies with targeted efforts can be effective when public policymakers focus on underdeveloped areas (Crafts, 2009; Vasilakos et al., 2022). By providing infrastructure support and making public investments, private sector investment and activities ‘crowd-in’ effect can take place (Crafts, 2009)

5.3.5 Accelerating SDG Agenda

Due to its localized nature, Place-based Industrial Policy can potentially accelerate the SDG agenda as it allows for potential integration of environmental and gender considerations in the policy design and implementation. One interviewee linked it to achieving SDGs:

“Place-based Industrial Policy, if effective, could contribute to Egypt’s SDGs performance... the purpose of SDGs and industrialization are the same as better quality of life for people” (University Professor, April 2024).

In addition, Experts from Federation of Egyptian Industries explained that place-based policies would allow for understanding the social and environmental factors in the targeted areas which can work towards achieving gender and environmental targets. Place-targeted interventions that takes into consideration density of women in certain locations, their skill needs in addition to environment considerations which can be integrated into industrial development plans, ensuring that women have equal access to economic opportunities and addressing climate change.

6. Conclusion and Recommendations

6.1 Concluding Remarks

Industrial Policy is back in fashion in the academic sphere and gaining growing popularity in practice around the world. This is particularly evident in the growing body of literature on Industrial Policy, and increased application of Industrial Policy around the world, especially in the global north. While the debate surrounding Industrial Policy persists, there is more acceptance of the discussion about how it can be successfully implemented, and more literature is exploring the variety of industrial policies implemented around the world. The emerging literature provides evidence on how Industrial Policy really works and how it shapes economic activity and opens the door to understanding different industrial policies.

This new discourse along with the increasing regional inequality and the persistence of economic distress in space has led to a resurgence of interest in place-based industrial policies. While there are mixed results from the research on the impact of place-based industrial policies, evidence has found that it arguably often leads to outcomes consistent with the intentions of policymakers in both lagging and declining regions. The policy's role in local economic development as well as regional disparity merits the importance of its exploration in the context of the global south, in countries such as Egypt.

The result of this study indicates that Egypt has a long history in government interventions in the form of Industrial Policy. While the place-based approach is more commonly utilized in the development agenda, there has been use of place-based policy instruments in the industrial sector. The place is not clearly identified due to a lack of a clear policy along with policy targets and KPIs, however, features of place-based approach in Industrial Policy appear in the form of instruments

such as industrial zones, free zones, special tax incentives, and special economic zones, coupled with place-based mentality. The motivations behind the use of place-based instruments can be seen in regional development, political direction, and market-based motivations. Despite the use of the instruments, the research finds that they are not tied to a specific policy or government direction to utilize place-approaches but rather fragmented efforts across government stakeholders.

The study finds the key challenge in Egypt's approach to Place-based Industrial Policy is the lack of a clear and comprehensive industrial strategy as a master plan that focuses on sectors of priority while adopting a place-based approach. Other challenges include overlap in mandates between government stakeholders, weak institutional capacity and absence of the necessary data frameworks on the local level. Nonetheless, the research extracts a key enabler of place-based policy which is centralization informed by local stakeholders and private sector, creating synergy between the local and central.

Despite the fragmented implementation, the findings consider Place-based Industrial Policy to be highly significant in the Egyptian context for multiple reasons. These reasons include addressing the prevalent regional disparities, leveraging place characteristics and resources. The preexistence of organic clusters allows for supporting agglomeration economies. In addition, Place-based Industrial Policy can contribute to skill development and infrastructure advancement as well as accelerating the SDG performance on the local level. Such significance requires further investigation into the impact of the place-based industrial approach in Egypt.

6.2 Policy Recommendations

Based on the findings and the analysis conducted in this research, the below section will present a set of policy recommendations, particularly in the context of place-based approaches:

- **Supreme Committee for Industrial Sector Development**

Establishing a Supreme Committee for Industrial Sector Development could provide a coordinated, high-level platform to oversee and guide Industrial Policy implementation across Egypt and address the disconnect between the different entities. This committee would be responsible for aligning Industrial Policy with national development goals, ensuring inter-ministerial coordination, and encouraging collaboration between government and private sector stakeholders. The committee would be mandated with resolving the overlap in mandates between the different stakeholders, and the challenges facing Industrial Policy design and implementation.

- **Enhanced Land Allocation Mechanism**

An enhanced land allocation mechanism is crucial for optimizing the use of land resources in support of industrial development and ensuring the relevance of the place-based approach to Industrial Policy. This can be done by consolidating land allocation under a single entity that receives technical recommendations from the Industrial Development Authority on which industries are best allocated and in which location as per empirical evidence.

- **Informed Priority Sector Identification and Transparency in Methodology**

Identifying priority sectors for industrial development informed by rigorous data analysis and an understanding of both local and global market dynamics is essential. This recommendation encourages a systematic approach to sectoral prioritization, considering

factors such as comparative advantage, potential for value addition, product space theory, growth identification and facilitation framework, global value chain analysis, and alignment with national development goals.

- **Formulation of Industrial Strategy**

The formulation of a comprehensive industrial strategy is essential for providing a clear and actionable roadmap for Egypt's industrial development. This strategy should include long-term goals, set out specific objectives for key sectors based on the priority sector identification, and define the role of place-based policies in achieving these goals. The strategy would also need to include mechanisms for regular monitoring and evaluation, allowing it to respond to changing economic conditions, technological advancements, and emerging opportunities. A comprehensive industrial strategy would serve as a guide for policymakers, investors, and other stakeholders, ensuring that efforts are aligned and resources are effectively utilized.

- **Balance between Bottom-up and Top Down Approach and Private Sector**

Participation: A balanced approach that combines bottom-up and top-down strategies is crucial for effective Industrial Policy in Egypt. The bottom-up approach allows local stakeholders to shape policies that reflect regional needs, while the top-down approach ensures alignment with national objectives. Engaging the private sector in this process is essential, as it brings valuable market insights, drives investment, and enhances the effectiveness of industrial strategies. This collaboration helps address regional disparities and supports sustainable economic growth across the country.

- **Comprehensive Data Framework on Local Level**

This framework would involve the systematic collection, analysis, and dissemination of data on local economic conditions, industrial capacities, labor markets, infrastructure, and other critical factors. By providing detailed, region-specific insights, such a data framework would enable policymakers to design and implement more effective, place-based industrial policies tailored to the unique needs and strengths of each region

- **Empirical Research on impact of Place-based Industrial Policy instruments**

To support the implementation of place-based industrial policies, it is critical to conduct empirical research on the effectiveness of the instruments in use. This research should focus on evaluating the impacts of specific place-based interventions, such as industrial clusters, special economic zones, and targeted incentives, on regional economic development. By generating evidence on what works and what doesn't, Industrial Policy can be refined and more effective in promoting local industrialization, reducing regional disparities, and achieving broader economic and social objectives. In addition, this research would help to fill existing knowledge gaps and provide a solid foundation for future policy development.

The recommendations presented above which are derived from the research and interviews acknowledge that Industrial Policy doesn't have a one-size fits all approach, hence, the findings elicited are specific to Egyptian context. It adopts Rodrik (2004) view that the right way of thinking of Industrial Policy is as a "discovery process—one where firms and the government learn about underlying costs and opportunities and engage in strategic coordination" (Rodrik, 2004, p3). It

also acknowledges that experimentation and learning from these mistakes is essential for successful Industrial Policy as Rodrik (2004) explains making mistakes such as (“picking wrong industries”) is “part and parcel of good Industrial Policy when cost discovery is at issue” (Rodrik, 2004, p37)

Based on the research findings, the recommendations emphasize the need for a coordinated and informed approach to Industrial Policy in Egypt, particularly through place-based strategies. They address the lack of clarity in policy direction by advocating for the development of a comprehensive Industrial Strategy and tackle the issue of overlapping mandates and coordination through the establishment of a Supreme Council for Manufacturing. The recommendations also emphasize the importance of an improved institutional structure for land allocation, which is critical for the effectiveness of place-based industrial strategies and instruments like industrial zones, free zones, and economic zones. In addition, the recommendations advocate for a balanced approach that combines bottom-up and top-down methods while ensuring private sector participation to mitigate the challenges of centralization. Finally, the recommendations stress the importance of using a scientific methodology for sector selection and call for much-needed quantitative research on the effectiveness of place-based industrial policies and the most suitable policy mix for Egypt's context.

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Appendix I. Interview Questions

General Question:

- How do you see the shift in perspective on Industrial Policy worldwide; with it not no longer being a taboo subject
- How would you define Industrial Policy? Do you perceive Industrial Policy to cover sectors other than manufacturing sector?
- Place-based policy in practice, what does place encompass in the case of Egypt?

Industrial Policy in Egypt:

- Egypt has a long history of industrial policies marked by two strategies in 2005 and 2016, can you elaborate on Egypt's Industrial Policy experience in your opinion?
- Does Egypt currently follow an industrial strategy? Why following an industrial strategy important?

Place-based Industrial Policy:

- What would be the unit of place when implementing Place-based Industrial Policy in Egypt? Do these geographical variations affect the potential for industrial growth in different areas?
- What is the importance of pbip in the Egyptian context, what would it address?
- Is there a clear objective for the place based Industrial Policy? What is the extent of place-based policy application?
- is there a clear objective for the place based Industrial Policy? What would be the key objectives of place-based industrial policies in Egypt?
- How, in your opinion, do these policies leverage local resources and geographical advantages for industrial development (if they do)?

Local Landscape in Egypt:

- a. Do you think there are unique geographical characteristics for the different regions in Egypt that can play a role in industrial development? And How?
- b. Do these geographical variations affect the potential for industrial growth in different areas?
- c. Do you think the Place-based Industrial Policy should work on geographical characteristics or need-based approach?

Policy Understanding:

1. In your opinion, is there a clear objective for the place based Industrial Policy? What would be the key objectives of place-based industrial policies in Egypt?
 - a. How, in your opinion, do these policies leverage local resources and geographical advantages for industrial development (if they do)?
 - b. To what extent do the policies prioritize addressing regional disparities/ manufacturing potential across various geographical areas? Are social and economic inclusivity factors integrated into the policies in your opinion?

Policy Formulation:

- a. Would you consider Egypt's place-based industrial policies to follow a participatory approach?
- b. To what extent do you think there is collaboration and coordination between various stakeholders (government, businesses, communities) in the formulation of these policies?
- c. Do you think Egypt's investment law no 72 of 2017 have addressed geography-based policy in a sufficient manner?

Policy Implementation:

- a. From your perspective, how effectively have the place-based industrial policies been implemented in various regions of Egypt? How would you measure this effectiveness?
- b. What factors contribute to successful implementation in certain areas, and conversely, what challenges hinder effective execution in others?

Perception of Policy Impact:

- a. Based on your observations, what impact have these policies had on local industries and development in various regions of Egypt?
- b. How does the private sector perceive PBIP efforts?
- c. Are there specific success stories or challenges that stand out in terms of policy outcomes at the local level?

Lessons Learned:

- a. Based on your experience, what lessons can be learned from the implementation of place-based industrial policies in Egypt that might be applicable to other regions or countries?
- b. Are there any best practices or pitfalls that should be considered for future policy development?

Future Recommendations:

- a. What recommendations would you provide for policymakers aiming to enhance the effectiveness of place-based industrial policies in Egypt?
- b. How can these policies be refined or expanded to better unlock local potential in different geographical areas?