The South African Institute of International Affairs

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SAIIA

Meeting the Sphinx

The Experience of South African Firms Doing Business in Egypt

Hany Besada

Egypt

Series editor: Neuma Grobbelaar

Report 7 2006

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of International Affairs

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Lastly, SAIIA wishes to acknowledge the sterling work done on this report by Pippa Lange, external language and style editor.

About the Author

Hany Besada is a researcher at the South African Institute of International Affairs working on the Business in Africa Research Project.

About the SAIIA Business in Africa Project

This is the sixth country case study in a comprehensive survey of business conditions prevailing in Africa, conducted by SAIIA's Business in Africa project. The report forms part of a series of country and sectoral studies undertaken with a view to extrapolating specific policy recommendations for African governments on how to create a more supportive business environment in Africa.

The New Partnership for Africa's Development (Nepad) initiative emphasises the critical importance of the private sector to the continent's economic development. South Africa's expanding track record as a significant and, even more important, a fellow African investor is a notable indicator of local business confidence in the future of the continent. This is also making it possible for the private sector to play a stronger role in the continent's development.

Although it is generally assumed that South African investors are less averse than others to taking risks, in view of their knowledge of, and proximity to, the African market in terms of appropriate technology and products, the SAIIA Business in Africa project aims to verify whether this is indeed the case. Moreover, the research identifies critical areas in which reform is essential if Africa's private sector is to contribute to growth and sustainable development.

Neuma Grobbelaar, the Director of Studies at SAIIA, who is assisted by Hany Besada, the Business in Africa researcher, heads the Business in Africa project.

The following reports have been published by the project thus far:

Games D, *A Preliminary Survey: The Experience of South African Firms Doing Business in Africa*, Business in Africa Report 1, SAIIA, 2003.

Grobbelaar N, *Every Continent Needs an America: The Experience of South African Firms Doing Business in Mozambique*, Business in Africa Report 2, SAIIA, 2004.

Games D, *An Oil Giant Reforms: The Experience of South African Firms Doing Business in Nigeria*, Business in Africa Report 3, SAIIA, 2004.

Besada H, *Glimpse of Hope in West Africa: The Experience of South African Firms Doing Business in Ghana*, Business in Africa Report 4, SAIIA, 2005.

Grobbelaar N and K Tsotetsi, *Africa's First Welfare State: The Experience of South African Firms Doing Business in Botswana*, Business in Africa Report 5, SAIIA, 2005.

Sayagues M, *Timbuktu's Golden Legacy: The Experience of South African Firms Doing Business in Mali*, Business in Africa Report 6, SAIIA, 2005.

Methodology and Rationale

This report is based on a series of interviews conducted in Egypt during May and June 2005 to elicit and analyse information on South African-based companies and subsidiaries operating in Egypt. For this part of the research, 13 companies were interviewed, and invaluable data were collected. The survey covered a wide range of South African business interests, and involved the sectors of construction, retail, manufacturing, franchising, agriculture, shipping, chemicals and engineering.

Interviews were also conducted in Egypt with representatives of other international companies, multinational organisations such as the United States Agency for International Development (USAID), the United Nations Development Programme (UNDP), the International Finance Corporation (IFC) and the World Bank, the General Authority for Investment and Free Zones (GAFI), the Federation of Egyptian Chambers of Commerce, the Association for SMEs and the South African Embassy in Egypt.

Key data were drawn from a wide range of sources, including the Egyptian Investment Promotion Office in London; GAFI; the Egyptian Ministries of Trade and Economy, Investment, and Foreign Affairs; the South African Departments of Foreign Affairs and Trade and Industry; the US Department of State; the Egyptian National Competitiveness Council; the Central Bank of Egypt; the United Nations Conference on Trade and Development (UNCTAD); the World Economic Forum (WEF); the Egyptian Economic Research Forum; the International Monetary Fund (IMF); the Organisation for Economic Co-operation and Development (OECD); the World Bank; the International Bank for Reconstruction and Development (IBRD); and the Egyptian State Information Service.

Egypt was selected because of both the increasing interest that South African businesses have shown in that country, and its status as the second-largest economy in Africa. South African and other foreign investors have been attracted by Egypt's macroeconomic stability and impressive economic growth of 4.4% over the past eight years. The country's gross domestic product (GDP) has grown to $93.9 billion in 2003, from $86.3 billion in 1999.[1] This can be attributed to an ambitious structural adjustment programme and other economic reforms that were initiated at the time of Egypt's debt rescheduling with the Paris Club in the early 1990s. These reforms brought about the stabilisation of its inflation and monetary supply, an improvement in public finances, a realistic market-driven exchange rate and the growth of the private sector. Today, the country's economic growth is centred on the private sector: its activities contribute over 75% of the country's GDP.

Egypt's strategic location at the crossroads between North Africa and the Middle East has also encouraged South African companies wishing to expand via Egypt into the rest of the region to investigate trade and investment opportunities in that country.

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[1] World Bank Quick Reference Tables, 2003.

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Executive Summary

Egypt is one of the most promising emerging economies in the world. The comprehensive stabilisation programmes and economic reforms launched by the government since 1991 have alleviated poverty, generated high sustainable growth rates, improved standards of living and achieved monetary and financial stability. They have also led to the emergence of a competitive, liberal and privately-led economy. The country currently offers one of the most internationally integrated and open markets in the Middle East North African (MENA) region.

Egypt's economic rise since the early 1990s has been accompanied by relative political stability amid intense regional crises. This, combined with attractive investment incentives, a domestic market of 77.5 million inhabitants and a competitively priced work force, should make it a promising market for South African products and investments.

However, although bilateral trade with Egypt has grown significantly over the past decade, investment from South Africa has lagged behind. South Africa is not only a late entrant to Egypt's market but also faces strong competition from European, American and Middle Eastern products and companies, which have historically dominated the economy. But South African firms have been successful in carving out a small niche for their high-quality manufacturing, chemical and agricultural products. Egyptian consumers, who for a long period relied on over-priced goods from the EU, US and the Arab world, are eager to try less expensive, but comparatively high-quality South African products.

However, the investment and trading profiles of South African firms that are active in the Egyptian economy demonstrate the difficulties companies face in penetrating the Egyptian market.

This is typical of the South African experience in other countries in North Africa, which are located much closer to Europe, both geographically and economically.

Despite Egypt's well-established infrastructure, a highly educated and skilled work force, low utility costs and considerable mineral resources, South African involvement in that country is minimal in comparison with the FDI it receives from the European Union, the Arab world and the US. South Africans offer as reasons for their lack of penetration into Egypt a lack of understanding of the Egyptian environment, a conflicting business culture and language constraints.

However, despite these obvious difficulties, the construction sector has won significant contracts in Egypt. There is also some investment and activity in the retail, machinery, franchising, agriculture, shipping, chemicals and engineering sectors.

The main findings of the field research in Egypt concerning the experience of South African companies and subsidiaries operating in Egypt include the following.

- Most South African enterprises and subsidiaries doing business in Egypt found it a promising market. The majority confirmed their intention of maintaining their Egyptian operations, but were not ready to expand. They said they preferred to become more familiar with existing business practices and the operating environment before making any such decisions. However, they expressed confidence in the government's foreign direct investment (FDI) policies and its efforts to boost the country's economic growth and improve living standards.
- The current administration is also credited with accelerating the pace of macro-economic reforms, maintaining monetary and fiscal stability, and providing incentives to international investors in Egypt. South African entrepreneurs believe that

some progress is being made in lowering bureaucratic barriers, improving infrastructure, revamping conditions for market entry and streamlining procedures for imports and exports.

- However, an unfavourable work ethic constitutes one of the biggest business constraints faced by South African firms operating in Egypt. Although Egypt boasts a large educated and skilled work force, many foreign entrepreneurs describe high rates of absenteeism and tardiness in their Egyptian employees as problem areas. This is mainly attributable to family obligations, religious and cultural demands and constraints, and a lifestyle that values friendship and family commitments above work demands and deadlines.
- Nepotism constitutes another problem for international and local investors alike. Managers of South African companies complain about a culture that sets greater store by long-established relationships than contractual obligations. In addition, international investors cite as problems favouritism and a lack of transparency in the awarding of government contracts. These are also encountered in the daily interactions between firms and the local government offices, and in the setting up and carrying out of projects. They also note that the smooth and timely finalisation of agreements and contracts depends on personal contacts rather than on the appropriate documentation and legal representation.
- *Bribery is an ever-present factor for South African and other* international companies in Egypt. This type of corruption has *a deleterious impact on business transactions.* Although it is not as extensive and widespread as in some African states, it does affect many smaller to medium-sized companies to their detriment. It hampers the timely transfer of goods at ports, and has contributed to the inefficiency of the public

sector and local government departments dealing with foreign and local investors alike. *Transparency International* placed Egypt as the 77th most corrupt of 133 countries in its 2004 Corruption Perception Index. Since 2002, high-profile corruption cases have resulted in costly and lengthy trials and convictions for several former government officials, including the former head of the Customs Authority, the former Minister of Finance and the former Governor of Giza Province. In addition, several prominent bankers and businessmen have been charged and convicted of corruption related to loans that have not been repaid.

- Some South African companies perceive Egypt's legal system as a business constraint. Although the system is not weak in itself, the process of arriving at judgements is slow and costly. However, over the past two years, there have been considerable improvements within the legal system. The current administration has introduced more computerised court systems, which eliminate both corruption and red tape. In addition, the government is in the process of replacing court judges who were appointed during previous administrations with new, younger and more efficient ones.
- The lack of disposable income in Egypt's population poses another problem for multinational corporations and foreign investors. In 2004, Egypt's gross national income per capita was $1390.[1] Although it is classified as a middle-income state, its per capita income is relatively low in regional and global terms. Only about 10% of the population can afford to buy imported products on a regular basis. In addition, the country's market is acutely price-sensitive and one in which quality often takes second place after cost. South African

[1] World Bank Development Indicators database, April 2004.

and other foreign investors therefore offer products that cater for a limited segment of the population. For this reason, South African companies are constantly engaged in price wars with other foreign investors to attract greater market share or maintain their existing share. However, standards of living are constantly rising because of the introduction and continuation of market reforms and the liberalisation of the economy over the past two decades. South African companies are confident that more members of Egypt's large middle class will be able to afford their products in the near future.

- South African and other foreign investors find that Egyptian laws on real estate ownership are complex and difficult to interpret. Titles to property are at times difficult to trace and establish. However, the current administration is moving swiftly towards the modernisation of its real estate laws to strengthen and simplify ownership and tenancy rights.
- South African and other foreign investors also cited considerable difficulties in launching a business in Egypt. Nevertheless, the government has introduced several laws and decrees to ease and streamline the process of registering new businesses for foreign investors.
- Customs regulations were identified as a key business constraint in Egypt. Customs procedures designed to identify and eliminate trading gaps remain rigid in areas such as duties. Customs officials make arbitrary rulings on whether a commodity fits a specific tariff bracket. Import clearance remains problematic, as several ministries have overlapping regulatory authority. In the event of a dispute about appropriate valuation, importers are obliged to take legal action against customs officials, and pay fees to port authorities while their disputed shipments are stored at ports.

- However, on the positive side, South African as well as other foreign investors can draw on the country's affordable yet skilled human resources pool. Egypt's work force of 18 million has considerable experience in various industries, as many of its members have previously worked in neighbouring Arab states. Egypt's education system produces the largest volume of university graduates in the Middle East, and curricula at all levels have historically placed emphasis on high-quality education. The government recently took measures to strengthen the education system, so that it could continue to produce a competitive work force that could meet global challenges. A large majority of South African companies have experienced little difficulty in recruiting skilled Egyptians into middle and upper-level managerial positions.
- Egypt provides international investors with a solid transportation system that extends to all parts within its borders. The country boasts the second-oldest extended railway system in the world, which is the oldest in the MENA region. Currently, Egypt's paved roads and highways cover over 44,000 km, and its waterways and ports accommodate 90% of its international trade.[2] South African and other foreign investors have been able to import their raw materials and to export the finished products to all parts of the globe via the Suez Canal.
- Some South African companies have found Egypt's large market size to be an attractive incentive for doing business in the country. Egypt's 77.5 million inhabitants make it by far the most populous Arab nation, and the second-largest in Africa following Nigeria, which had an estimated 128.7 million

[2] US Foreign Commercial Service & US Department of State, 2004.

inhabitants in July 2005.[3] Easy access to the MENA region from Egypt increases the potential market size to 385 million inhabitants.[4]

- The country offers a relatively safe and stable environment to South African investors. Political reforms and the sweeping democratisation measures that started in the 1990s have opened up new opportunities for developmental, cultural and media activities, among them public debates on domestic issues. This has supported political stability and strengthened civil and social institutions. South African investors credit the country's low levels of theft and crime to its effective criminal justice system as well as its strong religious and cultural norms.
- South African investors are eager to take advantage of the expanding investment opportunities associated with new discoveries of precious minerals and the enlargement of Egypt's agro-business activities. Currently, there are three mega agricultural projects under way in the country's vast desert regions, each aimed at reclaiming half a million feddans.[5] However, in Egypt, resource wealth centres on its natural gas, oil and metals. The petroleum industry has attracted increasing amounts of exploration funding. It is anticipated that over the next decade, the country will become the world's sixth-largest exporter of natural gas. In addition, new discoveries have opened up opportunities for mining in iron ore, coal and phosphate. The country is also

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3 *CIA Factbook*, 2005.

4 See *www.populationconnection.org*.

5 Feddan is a unit of area used in countries such as Egypt and the Sudan. Its Arabic name means 'a yoke of oxen': implying the area of ground that could be tilled by them in a certain time. 1 feddan = 24 kirat = 4,200 square metres (m^2).

striving to expand its non-traditional industries such as developing and improving computer software in Arabic, food processing, tourism, chemicals, light manufacturing, steel, furniture and cotton milling.

Introduction

Because Egypt is situated on the northeastern tip of Africa, its foreign policy agenda has traditionally been tilted towards the Middle East. In the past, its focus was on consolidating its position as the cultural and political hub of the Arab world. A secondary focus has been the resolution of the Arab–Israeli conflict. However, this outward focus has exacted a heavy price from its population and its economy over the decades.

The September 11 terrorist attacks on the United States in 2001 galvanised the Egyptian government into reassessing its foreign policy agenda. President Mubarak's second-eldest son and probable successor, Gamal Mubarak, called for a revision of Egypt's traditional foreign policy agenda to move it away from its strong emphasis on mediation in Palestine towards the country's internal economic woes. The current administration, led by the newly-appointed Prime Minister, Ahmed Nazif, shares this pragmatic view: that the country's foreign policy agenda should be linked to its economic priorities.

The strengthening of Egypt's ties with Africa to boost its exports and to wean its economy from its dependence on Europe and the US has met with enthusiastic support from the ruling New Democratic Party's Policies Secretariat, which is headed by Gamal. Currently, Africa receives only 5% of Egypt's total exports. Increased trade with Africa will assist the country to address its balance of payment difficulties and its increasing trade deficit with East Asia, the EU and the US.

Egypt's recently appointed foreign minister, Abul Gheit, has called on the African Affairs division in his ministry to formulate a programme that will enable Egypt to interact with its fellow African states on a wide range of political, economic and social issues. The more active agenda includes greater engagement with the continent's largest economy. In July 2003, the South African–Egyptian Joint Bilateral Commission convened its sixth session. Foreign ministers from both countries held in-depth discussions concerning the promotion of bilateral relations as well as regional and international issues of common interest. In August 2004, Foreign Minister Abul Gheit visited South Africa, in a further attempt to boost bilateral ties. During Gheit's visit, his counterpart, Dr Nkosazana Dlamini Zuma, called on him to strengthen Egypt's commitment (in collaboration with South Africa) to the Nepad Heads of State Implementation Committee, of which both countries are members.

In terms of the bilateral relationship between South Africa and Egypt, each aspires to represent the continent on a reformed and expanded United Nations Security Council. However, there is potential to transform the relationship between Africa's two economic powerhouses into a more complementary association. Over the past decade, both countries have co-operated in various multilateral forums, especially in the World Trade Organisation (WTO), African Union (AU), G20 and the Non-Aligned Movement (NAM). They share a belief in an international financial system that supports more economic aid, debt relief, wider access to international markets and increased political representation for the continent in multinational organisations. Both countries have also committed themselves to political initiatives that promote peace and security in Africa. Egypt currently has uniformed personnel serving in UN peacekeeping operations in Darfur, Burundi, Liberia, Western Sahara, the Democratic Republic of Congo (DRC), and Sierra Leone.

Trade between the two countries is slowly expanding. Egypt is one of the few African countries that enjoy a marginal *trade* surplus with South Africa. Although the latter remains a small foreign investor in Egypt in comparison with that country's traditional partners from the EU, the Middle East and the US, private businesses and government officials would like to see the location of more South African enterprises in Egypt over the coming decade. There are at present four established South African companies in Egypt, with a further 20 subsidiaries and agents of South African firms operating in that country.

Both the Egyptian and South African governments acknowledge that economic relations between the two countries are not satisfactory, given their considerable potential for expansion. A long-awaited free trade agreement is expected to increase bilateral trade and investment through the mutual opening up of markets. Closer co-operation between the largest economies in Southern and Northern Africa offers one of the most practical means for increased economic development on the continent.

Overview of the Socio-Economic Environment

Political situation

Egypt has been one of Africa's most stable countries over the past three decades, successfully weathering domestic challenges and regional turmoil. Under a succession of military rulers, it has recently taken political steps, which are radical within the Arab world towards introducing multiparty democracy. In the international arena, Egypt has played a pivotal role in the political and security situation in the Middle East. Its involvement in four Arab–Israeli wars and the subsequent peace made with Israel has helped transform it from a warring nation to a champion of peace in the region.

Egypt's rich archaeological and historical legacy resonates into the present. Archaeological records of the ancient Egyptian civilisation that was founded on the banks of the Nile River date back to 4,000 BC. As one of the first civilisations to develop urban life, irrigated agriculture, religion, large-scale political structures, literacy and writing, Egypt has left a legacy of important discoveries, innovations and contributions to human civilisation. Today, Egypt is widely regarded by Middle Eastern historians and political analysts as the main political and cultural centre of the Arab world and Middle East.

Over the centuries, the country fell to the Persians, Greeks, Romans and Byzantines. Muslim Arab invaders conquered Egypt in 641 AD, and Egypt has been a part of the Muslim and Arab worlds ever since.

Mohammad Ali, who served as viceroy of Egypt from 1805–1849, when the country was a province of the Ottoman Empire, established the foundations of the modern state of Egypt.[1] He rebuilt the Alexandria harbour, introduced modern methods of irrigation in the Nile Valley, and started the cultivation of cotton, now one of Egypt's major crops.

However even though Egypt became one of the world's most important transportation hubs upon the completion of the Suez Canal in 1869, the country also fell into debt. In an effort to protect its interests in the Canal, the UK seized control of Egypt in 1882. Although nominal allegiance to the Ottoman Empire remained until the outbreak of World War I in 1914, Egypt was under British administration for the next 40 years.

Modern Egypt: A Timeline	
1914	Egypt becomes a British protectorate.
1922	Egypt gains its independence and Fu'ad I becomes king of Egypt.
1928	The Muslim Brotherhood is founded by Hasan al-Banna.
April 1936	King Faruq succeeds his father as King of Egypt.
1948	Egypt, Iraq, Jordan and Syria attack the new state of Israel.
23 July 1952	An uprising is led by the Society of Free Officers, who name Maj Gen Mohammed Naguib commander in chief and force King Farouk to abdicate.
18 June 1953	Egypt is declared a Republic. Muhammad Naguib becomes its first president.
1954	Lt Col Gamal Abdel Nasser removes Naguib and becomes premier. Two years later, he is elected as president.

[1] *History of Modern Day Egypt.* Hordon: Encyclopaedia Britannica International Ltd, 1970, pp 215–7.

Modern Egypt: A Timeline (continued)	
29 October 1956	Britain, France and Israel invade Egypt to prevent the nationalisation of the Suez Canal. On 7 November, Egypt and Israel accept a UN ceasefire that ends the fighting.
February 1958	Egypt and Syria join to form the United Arab Republic (UAR) as the first step of the route towards Arab unity. Although in 1961 Syria withdraws from the union with Egypt, the latter retains the name UAR until 1971.
5 June 1967	Full-scale war breaks out between Israel and Egypt.
10 June 1967	Hostilities end under a UN ceasefire. Israel captures Gaza and the Sinai Peninsula, and takes control of the east bank of the Suez Canal.
1970	On 21 July, construction of the Aswan Dam is completed. President Abdel Nasser dies in September and is replaced by his vice president, Anwar Sadat.
6 October 1973	In a surprise attack, Egyptian forces cross the Suez Canal into the Sinai.
18 January 1974	Israeli forces withdraw from the canal's west bank; limited numbers of Egyptian forces occupy a strip along the east bank.
1975	A second accord is signed with Israel, in which Egypt yields the Sinai oil fields to Israel.
November 1977	President Sadat makes a surprise visit to Israel, opening the prospect of peace.
March 1979	Egypt and Israel sign a formal peace treaty, ending 30 years of war and establishing diplomatic relations.
September 1981	Tension between Muslim fundamentalists and Christians causes street riots and culminates in a nationwide security crackdown.
6 October 1981	Muslim fundamentalists assassinate President Sadat; Hosni Mubarak succeeds him.
April 1982	Israel returns control of the Sinai to Egypt.
1991	Egypt is a political and military supporter of the Allied forces in their successful campaign against Iraq in the Persian Gulf War.

Modern Egypt: A Timeline (continued)	
26 June 1995	President Mubarak escapes assassination by Muslim fundamentalists in Ethiopia. Egypt blames Sudan for the attack.
17 November 1997	Muslim extremists kill 58 foreign tourists and four Egyptians near Luxor.
6 September 1999	A knife-wielding assailant in the coastal city of Port Said inflicts a superficial injury on President Mubarak.
26 September 1999	President Mubarak is elected by popular vote to a 4th presidential term.
December 2000	Egypt, Lebanon and Syria agree on a billion-dollar project to build a pipeline to carry Egyptian gas under the Mediterranean to Lebanon.
October 2004	Bomb attacks target Israeli tourists on the Sinai peninsula; 34 people are killed.
February–April 2005	Pro-reform and opposition activists mount a series of anti-government demonstrations.
April 2005	A suicide bomber kills three tourists in Cairo. Another bomb attack in the capital at the month's end kills an Egyptian man.
May 2005	In a general referendum, Egyptian citizens back a constitutional amendment that will allow multiple candidates to stand in the presidential elections set for 7 September 2005.
23 July 2005	Nearly 90 people are reportedly killed in bomb attacks in the Red Sea resort of Sharm al-Sheikh.
7 September 2005	President Mubarak wins 88.6% of the vote in Egypt's first contested presidential elections, and is inaugurated for a 5th presidential term.
Source http //news bbc co uk/1/hi/world/middle_east/country profiles/790978 stm and World Almanac and Book of Facts, 2004	

Following the Ottoman government's declaration of support for the Germans when World War I broke out, Egypt was brought formally into the British Empire as a protectorate. After widespread anti-British riots in Egypt led by a strong nationalist movement during the war, Britain recognised the country's independence on 28 February 1922, although it retained control over the Suez Canal and various essential government institutions. British influence and occupation continued until the British-installed monarchy headed by King Farouk was overthrown on 23 July 1952 when he was forced to abdicate following mass protests.

The Free Officers, led by Lt Col Gamal Abdel Nasser and General Mohammad Naguib abrogated the 1923 constitution and staged a revolution. The country became a republic led by Naguib on 18 June 1953. While in power, Naguib tried simultaneously to run the country, rein in the enthusiasm of the junior officers, maintain the unity of the ruling Revolution Command Council (RCC), and secure Egypt's future without alienating the people or provoking foreign intervention. Eventually, he was unable to hold the RCC together. After losing a struggle for power with Gamal Abdel-Nasser, on 14 November 1954, Naguib was quietly escorted out of the RCC headquarters to his house in El-Marg, where he remained under house arrest for the following 18 years.[2]

In the year that followed, Nasser became the most popular and charismatic leader in the Arab world, promoting and implementing (with varying degrees of success) a policy based on Arab nationalism and socialism, not only in his homeland but throughout the region. He nationalised the (originally privately owned) Suez Canal Company following the refusal of the World Bank and the US to finance the Aswan High Dam in mid-1956. The crisis that followed as a result of Egypt's support for the *Front de Libération National's* war of liberation against French forces in Algeria; growing tensions with Israel over Egypt's backing of Palestinian guerrilla attacks in the Gaza strip against Israeli forces, and increasing tensions arising from the

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[2] See *http://weekly.ahram.org.eg/2002/595/sc6.htm.*

UK's continued military presence in the Middle East culminated in an Israeli invasion of Egypt on 29 October 1956. This was followed by a French and British attack on 5 November 1956. Even though Egypt suffered a humiliating military defeat, Nasser turned it into a moral and diplomatic victory. French and British forces were forced to withdraw following the passing of UN General Assembly Resolution 997.

In the 1960s Nasser began a series of moves that were aimed at guaranteeing his place in history. He wished to be perceived as not only the founder of Pan-Arabism but as a champion for the Palestinian cause, and a visionary within the developing world. In September 1961, the Egyptian president, together with the leaders of Yugoslavia and India established the Non-Aligned Movement[3] of developing countries, in which he played an important role until his death in 1970. During the 1960s, Nasser sought military and arms training from the USSR and Czechoslovakia following the refusal of the US to provide Egypt with military assistance (in reaction to Egypt's neutral stance with regard to the Communist bloc states). Nasser ruled with an iron fist, and outlawed all opposition groups. However, he remained popular at home and across the Arab world. He

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[3] The Non-Aligned Movement (NAM) is an international organisation of over 100 states, which consider themselves not formally aligned with, or against, any manor power bloc. At the time of its establishment, the NAM focused on the struggle for independence of various colonies, the eradication of poverty and economic development. It strongly opposed colonialism, imperialism, and neo-colonialism. While the organisation was intended to be as close an alliance as NATO or the Warsaw Pact, it has little cohesion and many of its members were induced or compelled to align themselves with one of the great powers. The NAM has struggled to find relevance since the end of the Cold War. (*Wikipedia Encyclopaedia*, 2004.)

won massive support from heads of government throughout the region for his willingness to defy Israel and the Western powers. Eventually his military and foreign policies helped to spark the Six Day War with Israel in 1967. The Israeli pre-emptive attack on the Egyptian and Syrian air forces gave that country the upper hand over its Arab neighbours. The Israelis took control of the Gaza Strip, the Sinai, East Jerusalem and the Golan Heights. Egypt's defeat dealt a blow to Nasser's prestige not only domestically but across the Middle East.

Following the death of Nasser from a heart attack, his vice president Anwar el-Sadat, assumed the presidency on 28 September 1970. He followed the foreign policy agenda of his predecessor by continuing to show aggression towards Israel. A year later, he concluded a friendship treaty with the USSR, although in 1972, he ordered his Soviet advisors to leave Egypt. In October 1973, Sadat launched a war against Israel, in a bid to regain the Sinai. Following early victories on the peninsula, the Egyptian forces were eventually pushed back to the far side of the Suez Canal. However, the Egyptian army managed to lay claim to a modest portion of Sinai before a ceasefire was called by the UN.

Taking advantage of his popularity at home, President Sadat pushed through a range of economic reforms that brought an end to Nasser's socialist policies. He ushered in a number of liberal economic measures designed to jump-start the stagnant Egyptian economy. The most notable of these reforms was the *infitah*, or `Open Door' policy. This helped to reduce the government's grip on economic controls while encouraging FDI. As a result, a wealthy upper class and a successful middle class developed in Egypt, although there was little substantial improvement in the lives of ordinary Egyptians, who became increasingly dissatisfied with Sadat's rule.

Sadat also introduced a number of political reforms. He banned torture and reinstituted due legal process. He brought members of his administration accused of crimes and corruption to trail, and dismantled Nasser's political machinery He introduced limited political participation during the mid-1970s, but later abandoned this effort following the rise of Islamic militancy in the country. During the last period of his presidency, the country suffered from increasing outbreaks of violence. These were caused by mass discontent with his rule, his failure to reduce the country's high unemployment rate and the rise in the price of food, especially bread.

However, President Sadat gradually brought about a shift in Egypt's foreign policy agenda. Through compromise and negotiation, he transformed Egypt's policy of confrontation and conflict with Israel to one of peaceful coexistence. He opened the door to peace with Israel by his unexpected visit to Jerusalem in November 1977, following the Sinai Disengagement Agreements of 1974 and 1975. As a result, President Jimmy Carter of the US and the Israeli Prime Minister, Menachem Begin, met Sadat at Camp David for peace negotiations. On 26 March 1978, Egypt's hostile engagement with Israel came to an end with the signing of a peace treaty between the two states. For their bravery and commitment to peace, Anwar Sadat and Menachem Begin received a joint award of the 1978 Nobel Peace Prize.[4] In 1978, Sadat also re-instituted a multiparty political system. The National Democratic Party (NDP), established the same year, continues to dominate both the political scene and the People's Assembly into the present.

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4 See *www wzo org ıl/en/resources/vıew/asp.*

Egypt's relations with the US improved dramatically after the signing of the Camp David Accord. The country became the second-largest recipient of US foreign aid in the world. US military support to Egypt now totals over $1.3 billion annually. The US and Egypt also participate in combined military exercises, including deployments of US troops to the country. Every other year, Egypt hosts *Operation Bright Star,* a multilateral military exercise with the US, and the largest of its kind in the region. Meanwhile, US economic and development assistance to Egypt is worth approximately $900 million annually. In total, Egypt has received more than $57 billion in foreign aid from the US since it made peace with Israel in 1979 (compared to the $4.2 billion it received from the US during the preceding 26 years). Today, American assistance to Egypt averages $2.2 billion per year, two-thirds of the foreign aid America commits to Israel.[5]

In return for the guarantees of peace from Egypt, Israel committed itself to returning the entire Sinai desert to Egypt through a phased approach. The return of the Sinai, which is rich in oil, was both a moral and an economic victory for Egypt. However, Egypt's rapprochement with Israel was not welcomed universally. The peace accord was widely condemned by the Arab world, and eventually led to Egypt's expulsion from the Arab League in 1979. Islamic militants, angered by the peace treaty with Israel, assassinated Sadat on 6 October 1981. His vice president Hosni Mubarak, who had been an air force commander during the October war in 1973, replaced him. He was subsequently elected by popular referendum for a six-year term and re-elected for three more six-year terms by popular referendums.

[5] Washington Report on Middle Eastern Affairs, 2004.

During the years that followed, Mubarak maintained his country's commitment to the Camp David peace process, while at the same time re-establishing Egypt's relations with the other Arab nations.[6] In 1989, the country was readmitted to the Arab League.

Starting in 1991, Mubarak embarked on an ambitious domestic economic reform programme to expand the role of the private sector and reduce the size of the bloated and inefficient public sector. The economic reforms were complemented by gradual political reforms.

In the national elections held in November 2000, opposition parties won 34 seats in the 454-member People's Assembly, while the ruling NDP obtained a majority of 388 seats in parliament.

Box 1: Presidential Elections

Muburak surprised his compatriots on 26 February 2005 by agreeing to amend Egypt's constitution to allow the country's first multi-party presidential elections later in the year. This political reform was as a result of growing pressure from various sources. Both domestically and internationally, there was a strong demand for the democratisation of the country's political system. The Bush administration was a particularly strong advocate for regime change in the Middle East. On 27 July 2005 President Mubarak announced his candidacy in Egypt's first contested presidential elections, which took place on 7 September 2005.

However, the opposition complained that the president's electoral reforms were insufficient, and did not go far enough to usher in real democratic change. The government maintains control of much of the media and state apparatus, which restricted the ability of other presidential candidates to campaign.

[6] See *www.state.gov/r/pa/ei/bgn/5309.htm*.

Box 1: Presidential Elections (continued)

A committee of parliament, which is dominated by Mubarak's NDP, passed tough guidelines for nominees that excluded candidates who were not from approved political parties. In addition, Egyptian law obliges prospective candidates to be endorsed by 250 elected officials. As the NDP controls the institutions to which these officials were elected, with 90% of seats in the houses of parliament and 98.5% of seats on the provincial councils, endorsement was not easy to achieve for candidates from opposition parties. In addition, political parties may only nominate a candidate that has been on its executive committee for at least a year. This ultimately excluded popular candidates from outside the small circle of mostly well-known politicians from contesting the elections.

The contestation of the 2005 presidential elections by the country's political parties was therefore largely symbolic. As expected, President Mubarak won a landside victory. Campaigning on a platform that promised the country's citizens economic and political stability, Mubarak garnered 88.6% of the vote

However, the NDP saw its share of seats decrease to 314 during the November and December 2005 general assembly elections, but it continues to enjoy a very substantial majority. The traditional opposition did less well and managed to secure a scant nine seats in 2005.

The big winner in the elections was the Muslim Brotherhood, which remains an illegal organisation. It contested the elections by proxy, fielding candidates as independents, and won 87 seats.

Box 2: Political Structure

The head of state, the president of the republic, is elected for a six-year term in a multiparty presidential poll. In the past, the president was nominated by the lower house of the legislature and elected for six-year terms by popular referendum. The president may decree emergency measures in the interests of the state, but the constitution stipulates that he must obtain consent for each such decree by popular referendum within 60 days. (However, the state of emergency that has been in effect to curb Islamic militancy in the country since 1981 has set aside the requirement for popular approval of presidential decrees.) The president has the power to formulate general state policy and to supervise its execution. He has authority to dissolve the legislature, declare war (with the approval of the legislature), ratify treaties and commute penalties. The president appoints a prime minister and a council of ministers or cabinet.

Egypt has a bicameral legislature, comprising the People's Assembly (*Majlis Ash-Shaab*) and the Advisory Council (*Majlis Ash-Ashura*). The People's Assembly, the principal legislative body, consists of two elected representatives from each of 222 geographical constituencies, along with 10 members appointed by the president. It has a total of 454 members, all serving five-year terms. The Constitution reserves 50% of the Assembly's seats for workers and peasants. Although the Assembly sits for a five-year term, it can be dissolved earlier by the president. All seats are put to the vote in each election. The People's Assembly has the power to bring about the resignation of the cabinet by passing a motion of censure. For this reason, the prime minister and his cabinet are necessarily chosen from the dominant party or represent a coalition in the Assembly. The Advisory Council, which has purely a consultative role, consists of 176 popularly elected members and 88 presidential appointees, all of whom serve six-year terms. This 264-member upper house of parliament was created in 1980. One half of the Shura Council is renewed every three years. Its legislative powers are limited: the People's Assembly retains the last word in the event of a disagreement between the two houses.

Source: 45th Edition of the *Europa World Yearbook, 2004*

Current Egyptian law prohibits the formation of political parties based on religion. The ideas of the Muslim Brotherhood's founder, Hasan al-Banna, laid the foundation for the political agenda behind today's Islamist activism around the world. In brief, those ideas are that Sunni Islam provides a blueprint for politics; that the solution to social ills is a return to the pure faith; and that Islam faces enemies, be they outsiders or Muslim governments that seek to thwart the renaissance of the true Islam.[7]

Box 3: Islamic Militancy in Egypt

A number of factors led to the proliferation of radical groups in Egypt. After the 1970s, these included the impact of modernity, Western encroachment, misrule by the national elite, unemployment among young people and deterioration in the living standards of the poor. The result was a crisis of identity and a search for authenticity.[8] With very few political avenues for public protest open to them, Muslim groups resorted to violence in the name of Islam. Their activities were influenced by fanatical groups that emerged in oil-rich nations such as Saudi Arabia during the late 1970s and 1980s. Ironically, Sadat encouraged the growth of Islamic militant groups, because he regarded them as providing a counterweight to the Nasserist-dominated student unions,[9] intelligentsia and civil society. Most Muslim militant groups sought support amongst the poor Egyptians, who had not benefited from the government's economic policies.

Following the death of President Sadat, Mubarak and his government recognised with extreme concern the rise in strength of Islamic groups in Egypt.

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7 See *www economist com/PrinterFriendly cfm?Story_ID=4033643.*

8 *Middle East Review of International Affairs*, 3, 3, September 1999.

9 Although Nasserist rule was not as heavy-handed as some of its contemporaries of the 1950s and 1960s, it was unquestionably autocratic with few restraints on the arbitrary exercise of power. Civil and political liberties were limited at best. An extensive security and intelligence apparatus created initially with US assistance and directed by ex-military officers guaranteed regime control of civil society. (Jankowski J, *op cit*).

Box 3: Islamic Militancy in Egypt (continued)

Some of these are more militant and violent than the Muslim Brotherhood. Over 1,000 people have been killed and up to 20,000 imprisoned since 1992, when Islamic fundamentalists began their violent campaign to topple Egypt's secular government and replace it with an Islamic regime.

In November 1997, Egypt's fragile tourism industry suffered a heavy blow when one of the bloodiest attacks by the larger of Egypt's two main underground militant groups, Gamaat Islamiya, took place in the historic city of Luxor, killing 58 foreign tourists.

During the 1990s the government waged a bitter campaign of mass arrests, state violence and financial crackdowns against Muslim militant groups. It introduced tight security measures to suppress the insurgency. Thousands of militants were rounded up under emergency laws that allowed for six-month detention without charge, and sentences in military courts, which excluded the rights to appeal. In response to the 1998 bombings of the American embassies in Tanzania and Kenya, in which members of Egypt's most militant Islamic group, Al Jihad, were implicated, the government secured the extradition of dozens of suspects from South Africa and Ecuador.[10] Interrogation of these extradited Al Jihad members provided important information regarding the group's wide network outside the country. The group's founder and most prominent member, Ayman al Zawahiri, is widely regarded as Osama bin Laden's mentor and deputy. He is thought to have masterminded several terrorist operations. Within the country, Al Jihad's strength is reportedly minimal, being restricted to disgruntled youths in the slums of Egypt's northern cities. In contrast, Gamaat enjoys grassroots support in the villages of Upper Egypt. In March 1999, the government signed a ceasefire with Gamaat Islamaiya, which had been significantly weakened by the government's relentless campaign. Subsequently, the Egyptian authorities released thousands of the group's members who had been in imprisoned over the years. Egyptians welcomed the ceasefire.

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[10] See *www economist com/research/backgrounders/PrinterFriendly cfm?Story_ID=321396*

Box 3: Islamic Militancy in Egypt (continued)

Although initially it seemed that the ceasefire would hold Islamic fundamentalists struck again in October 2004 and on 23 July 2005, the latter incident in the heart of Egypt's tourism areas. The authorities took pains to emphasise that these were isolated incidents.

The government has been relatively successful in containing Islamic militancy. Few citizens believe that radical Islamic orthodox behaviour and dress and slogans will solve their economic and political problems. Even though many Egyptians resent the high costs of education and health care and express concern over the rate of unemployment, they do not believe that violence will lead to economic prosperity. The influence of moderate Islamists has also grown in Egyptian society. University-educated professionals often preach to upper and middle class worshippers at government mosques. Political scientists, physicians, lawyers and journalists write regularly about, and speak on, issues of Islamic reform, social justice for the poor and women's rights. Hospitals, clinics, Islamic schools, social services, Islamic banks and publishing houses now offer alternative support mechanisms to many of the country's poor to mitigate the government's inability to meet their daily needs.

Socio-economic overview

Egypt has experimented with a number of economic policies. In the 1950s and 1960s, it had a closed, inward-looking economy owing to the introduction of nationalisation and socialism under President Nasser's administration. Market liberalisation and privatisation occurred only in the mid-1970s under President Sadat. However, some common features can be identified. During both administrations, the public sector dominated the economy, and the government provided open-ended subsidies to the country's poor, as a way to avoid public discontent. Consequently, the country's budget deficit widened and national debt skyrocketed.

Each decade of the second half of the twentieth century has had a different focus and achievement.[11] During President Nasser's administration in the 1950s, Egypt reduced the disparities in wealth distribution and income as a way to redress the social inequalities of the past. During the 1960s, he expanded the public sector to help absorb the country's increasing number of university graduates. He also enlarged the health and education services to accommodate the needs attendant on the country's rapid population growth.

In the 1970s, during Anwar Sadat's presidency, the government expanded its social security programmes by providing subsidies for the poor. Basic commodities such as bread and fava beans, Egypt's staple diet, were sold to the indigent below market prices. The government also sought to reduce industrial pollution and urban congestion by developing the country's vast deserts. With over 95% of the population living around the Nile, the country was grappling with increasing water and land pollution, environmental damage and deterioration and ecological degradation. President Hosni Mubarak commenced his presidency by launching a new population control programme to help stabilise the country's high population growth of 3.2%. In the early 1980s, his government promoted family planning programmes for newly married couples and basic health care for women and children. As a result, the government succeeded in reducing the population growth to 1.8% by 2004.

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[11] Mandoussa H, *A Vision for Egypt in 2012*. Oxford: MacMillan Press, 1998.

However, despite these achievements, much remained to be done to improve the lot of the poor.[12] For example, nearly half of Egypt's adult population remained illiterate as a direct result of the government's education policy, which neglected basic schooling while emphasising university education. The government's expansion of the public sector to create employment for graduates resulted in reduced productivity. Lastly, the introduction of subsidies for the poor led to increased government debt, which meant it had few resources available for further social investment.

The nationalisation of privately-owned industries and the introduction of socialist-inspired economic policies had stifled economic growth and driven away foreign investors in the 1950s and 1960s. Tensions between Christian and Muslim communities during the late 1970s and 1980s; the rise of Islamic militancy and violence after the 1980s; and the high military expenditure needed to finance Egypt's wars with Israel from the 1950s all contributed to a budget deficit of 21% of GDP by 1986–1987. Tourism, the country's main source of foreign revenue, declined as a result of regional instability. Rising inflation, high unemployment, soaring real interest rates, and a depressed regional and global economic environment led to the further deterioration of the country's financial situation.

By 1991, the government had made the critical decision to integrate the country into the global economy. President Mubarak continued his predecessor's work to move the country away from a socialist command-driven economy to an open market-oriented one. The government believed that successful trade liberalisation which would include the

[12] Shafik N, *Economic Research Forum for Arab Countries, Iran and Turkey* Oxford: MacMillan Press, 1998.

promotion and expansion of Egypt's exports, would ultimately lead to sustainable economic growth. Such growth was central to the government's plan to resolve the country's high unemployment rate among university graduates, which stood at 30%.[13]

Box 4: Commercial Centres

Cairo, the capital of Egypt, is the largest city in the Middle East and Africa. It has a population of well over 15 million people. Over a quarter of Egypt's inhabitants live in Cairo, which has an average density of 130,000 persons for every square mile. It serves as the administrative, political, tourist and commercial centre of the country. Other major cities include Alexandria, Giza, Ismalia, Aswan and Port Said. Alexandria, with a population of over 4.5 million, is Egypt's principal Mediterranean seaport. Port Said, which is situated at the northern entrance to the Suez canal, is the site of various shipping services and an important free trade zone. Giza is a town on the west bank of the Nile River, some 20 km. southwest of the capital city. It is most famous for being the location of a complex of ancient Egyptian sacred structures, which include three of the country's most famous pyramids.

The president also recognised the need to expand and empower the private sector, which would play a critical role in the country's transformation to a liberalised market-driven economy. Consequently, he embarked on a bold economic reform and stabilisation programme. This was supported by bilateral trade relief from the Paris Club; a structural adjustment loan from the World Bank; and a standby arrangement with the IMF. Egypt was also relieved of some its financial burden by partial debt rescheduling in 1987. The government's comprehensive programme was designed to achieve

[13] US Library of Congress, 2004.

macroeconomic stability, which would enable it to address the problematic social situation in the country. The programme's most important elements were price liberalisation and agricultural reform aimed at eliminating land use controls for staple crops.

Mubarak's macro-economic reform programme was to be implemented in three phases. The first phase centred on stabilising the economy by floating the exchange rate, curbing public expenditure, deregulating consumer prices, stabilising inflation, promoting investment and tightening its monetary policy. The second phase focused on private sector reform, trade and investment issues and banking sector restructuring. The final phase of the government's structural adjustment programme concentrated on export promotion in a bid to attract more FDI.

In addition, major strides were made in rebuilding and consolidating the country's infrastructure, reducing the time and costs involved in opening new businesses, revamping conditions for the operation and exit of commercial companies, streamlining procedures, dismantling bureaucratic barriers, privatising hundreds of inefficient state-owned enterprises, lifting import restrictions and introducing a free-floating exchange rate.

The government's reforms succeeded in achieving the gradual liberalisation of the prices of all products. The cost of natural gas, petroleum products, electricity and railway fares has been adjusted to market-based prices. Economic growth accelerated from 1.9% in 1991–1992 to 5.3% in 1999–2000. A supportive monetary policy helped bring down the fiscal deficit from 6.4% of GDP in 1991–1992 to 4.7% of GDP in 1999–2000. In addition, foreign debt as a percentage of GDP decreased substantially, from 77.9% in 1991–1992 to 27% in 2000–2001. Over the same period, foreign debt service as a percent of current account receipts fell to 9.3%. This is primarily attributable to Egypt's military involvement in the Persian Gulf War in 1991, which the US rewarded by debt forgiveness of $7 billion. This action relieved Egypt of meeting annual repayments amounting to more than $700 million.

This was important as the Gulf War had a substantial impact on Egypt's economic fortunes. The government accelerated the pace of reform to counteract the financial setbacks that the war brought about. These involved significant losses in:

- tourism revenues ($500 million),
- workers' remittances ($2.4 billion);
- income from the Suez Canal ($200 million);
- export sales to Kuwait and Iraq ($500 million).[14]

Other countries such as the Persian Gulf states, Saudi Arabia, several EU member states and Canada also cancelled Egypt's debt obligations. By early November 1990, the debt cancellation overall stood at about $14 billion. This helped to increase the government's revenues sufficiently to cover over a year of imports. The current account deficit improved, declining to 1.2% in 1999–2000 from 1.9% in 1998–1999.[15]

Simultaneously, the government made major strides towards reducing inflation, which dropped from a high of 14.5% in 1990–1991 to a manageable 7.3% in 1995–1996. The country's economic performance between 1996 and 1998 improved consistently, despite such setbacks as the Luxor terrorist attack on tourists, the Asian financial crisis and the plummeting of international oil prices. In the same period, inflation was

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[14] *Quarterly Economic Digest, op. cit.*

[15] *Investing in Egypt Report*, Egypt State Information Service, 2004.

reduced to 3.8% from 6.2%, while unemployment declined to 8.2% from 8.8%. The country experienced an average economic growth of 5.5% during this period.[16]

Privatisation

During the latter part of the 1990s, the government eased credit issuance procedures to private investors. It also streamlined the processing of tenders for new government projects. This increased the availability of credit to private investors, and made it possible for them to bid for more government projects and for state enterprises that were being sold under the privatisation scheme. Between 1999–2002, private sector credit increased by 11.5% per year, compared with virtually no growth in credit for the public sector. The share of the public sector in gross domestic fixed investment declined sharply, from 44.7% in 1992 to 37.1% in 1998 and 34.8% in 1999.[17] In 1999, the private sector contributed to around 74% of the country's total GDP. During 2000–2001, this also sector contributed over 80% of investments in the country. It became the leading player in the hotel, restaurant, storage, electricity, construction, insurance, finance and transportation industries.

Egypt's privatisation programme, which was designed in the 1990s, was implemented in three phases. The first phase was plagued by many problems, the most important of which was that the pace at which government-owned enterprises were sold was extremely slow because of the time it took to

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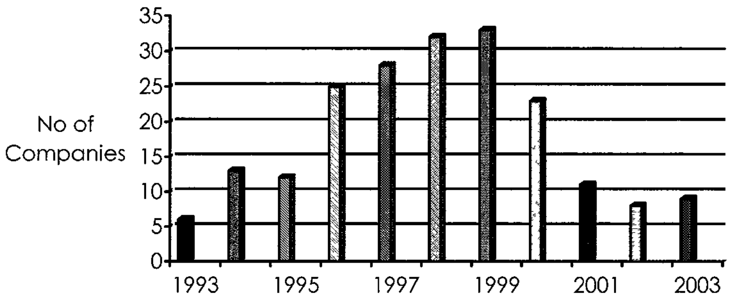
[16] *Quarterly Economic Digest*, Egypt Ministry of Economy and Foreign Trade, 2004.

[17] African Development Bank, 2002.

introduce and implement the necessary regulatory arrangements. Government structures were also not geared towards making the privatisation process work.

In early 1996, during the second stage, the Constitutional Court upheld a ruling to give the government the power needed to accelerate its privatisation programme. The process was boosted by the stock market flotation of profitable companies.

Egypt's privatisation



Source: General Authority for Investment and Free Zones, 2004

The third stage encountered other difficulties: the government proved unable to sell of the remaining, less viable state-owned companies. It was therefore forced to restructure these companies before putting them up for privatisation. By March 2004, the government had privatised 197 public assets out of a total of 314.[18]

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[18] Progress of Privatisation of Public Enterprises Report, Ministry of Public Enterprises, 2004

During the same period, Mubarak's administration tightened credit conditions to help curb the tide of bad unsecured loans, which had resulted in a loss of revenues. This helped to halt the flight of capital caused by unethical investors, and restored macroeconomic stability to the Egyptian market. In October 2002, the country's current account deficit was assessed at $9 million, while its inflation figures had dropped to 2.8 %.

The improved macroeconomic fundamentals, as reflected in Egypt's strong control of inflation and healthy foreign debt servicing provided a favourable backdrop for the introduction of a new exchange rate system. The new regulations announced by the Central Bank in August 2001 represented a move to improve domestic liquidity in the banking system with a view to strengthening private sector credit growth.[19] The new rate, which was in line with rates quoted in the market and wider bands, gradually brought the exchange market into balance. The greater flexibility of the exchange rate helped to strengthen the competitiveness and attractiveness of Egyptian exports, in spite of a weakening of the euro against the US dollar. Egypt's trade balance shrank by $1.4 million in 2002 over the previous year.

However, in 2001, the Egyptian economy experienced a general downturn. This was primarily attributable to depressed share prices, falling property values and a low exchange rate. A failure to prop up the Egyptian pound, together with continued capital flight, reduced the country's foreign assets by over 60%. The macroeconomic situation worsened, as increased Islamic militancy in the country deterred foreign

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[19] *Quarterly Economic Digest*, Egypt Ministry of Economy and Foreign Trade, 2004.

investment. Unemployment rose as the government increased the pace of privatisation.[20]

Table 1: Distribution of the Labour Force by Working Status				
Year	*Employment*	*Unemployment*	*Labour force*	*Unemployment rate*
1976	9,154,952	458,817	9,613,769	4.8
1986	11,385,726	1,419,258	12,804,984	11.1
1996	15,611,981	1,535,071	17,147,052	9.0
1997	16,121,300	1,446,500	17,567,800	8.2
1998	16,182,900	1,447,500	17,630,400	8.2
1999	16,182,900	1,482,000	18,617,000	8.0
2000	16,182,900	1,691,800	19,189,200	8.8
2001	16,182,900	1,780,000	19,666,400	9.1
2002	16,182,900	1,997,000	20,176,000	9.9
Source: GPN Global Labour Market Database: Egypt, Global Policy Network, 2003.				

The terrorist attacks of 11 September 2001 put further pressure on the Egyptian economy, which relies heavily on its Suez Canal tolls and tourism revenues for the bulk of its foreign income.[21] In the same period, oil revenues declined by more than 30%. The tourism industry brought in about $4.3 billion in hard-currency earnings in the year leading up to June 2001. However by October, the number of visitors had fallen by over 50%. Despite these setbacks, a depreciation of the Egyptian pound and an effective marketing strategy directed primarily

[20] More than 800,000 youths and university graduates joined the labour market each year.

[21] Other important sources of revenue include external aid, oil and natural gas income, cotton sales and worker remittances.

at the Arab world brought about a swift recovery in the tourism industry.[22]

Many of the economic woes the country faced at this point can be attributed to external forces, especially the slowing of global growth and political instability in the Middle East. However, there are some internal problems, such as the government's structural inadequacies and policy inefficiencies, which have further weakened the Egyptian economy. More than a decade of liberalisation measures has not succeeded in removing the centralising instincts, which took root during the 50 years of one-party rule. The government has continued to run a substantial budget deficit at 10.4% of GDP, while paying its share of 40% from the state coffers to service its debt.[23] It also has continued to implement a costly social security system for the poor and to provide salary increases for its 5.5 million civil service employees, to maintain political stability in the country.

The administration's decision to float the Egyptian pound in January 2003 resulted in a loss of 30% of the currency's value. This led to a sharp increase in commodity prices. To the government's disappointment, the devaluation did not boost exports substantially. However, the growth of non-traditional exports, such as computer software, and textiles, together with a rebounding of tourism receipts and oil revenues, have helped to offset these losses.

There are signs that the Egyptian economy is set to recover, after more than three years of economic decline. The economy is expected to grow by up to 5.5% during 2004–2005 and 4.7% in 2005–2006, after shrinking to 3.5% in 2000–2001, 3.2%

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[22] *Egypt Country Report*, The South African Department of Foreign Affairs, 2005.

[23] *Ibid.*

in 2001–2002 and 3.1% in 2002–2003.[24] This is primarily because of the recovery of the tourism industry; the resumption of remittances from Egyptians abroad; increased industrial production, primarily of steel products and cement; rising tax revenues; a real estate construction boom; improving oil prices and increasing natural gas production.

Table 2: Egypt: Macro-economic Indicators

	1996	1998	2000	2002	2003
GDP at market prices ($ bns)	67.4	84.7	92.1	84.1	89.0
GDP per capita ($)	1,116	1,392	1,550	1,202	1,470
Real GDP growth rates	5.0	4.1	5.9	3.2	5.4
Fiscal deficit (% of GDP)	0.0	1.0	3.9	5.8	2.9
Domestic savings (EG£ bns)	30.6	36.6	43.7	60.0	
National savings (EG£ bns)	44.9	52.8	58.6	74.3	
Total external debt ($ mn)	31.1	28.1	27.8	28.7	28.8
Total external debt (% of GDP)	45.9	32.2	28.2	32.6	35.6
Average annual inflation rate	7.3	3.8	2.8	2.4	3.2
Unemployment rate (%)	9.2	8.8	7.7	9.0	8.7

Source: Quarterly Economic Digest: January–March 2004 (Cairo: Ministry of Foreign Trade), UNCTAD Handbook of Statistics 2003.

The war in Iraq has helped revenues earned by the Suez Canal to rise over the past two years, as more warships are sent to the Persian Gulf from the Mediterranean Sea and Atlantic Ocean through the Canal. Income from the Suez Canal rose to $3.27 billion in 2004, compared with $2.81 billion in 2003. In addition, Egypt's natural gas sector is set to expand over the next 50 years, following recent discoveries in the Western Desert and the Nile Delta. The metal and cement industries have recorded

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[24] *African Economic Outlook, AFDB/OECD,* 2004.

healthy growth since mid-2003, owing both to improved labour and regulatory policies and the privatisation of many inefficient factories.

Sectoral breakdown of the economy

Agriculture

Agriculture remains an important sector of Egypt's economy, even though its contribution to GDP is gradually diminishing. Although only 4% of Egypt's land is arable, agriculture accounted for 28% of total employment in 2000–2001 and 16.4% of GDP in 2002–2003.[25] Despite the fact that the contribution of agriculture to GDP has fallen from the 26% recorded in 1970, agro-processing and industries have been growing steadily. They attained a growth rate of 54% during 1995–1999. Between 1993–1999, the annual growth of investment in agriculture averaged 22.8%.[26]

The government has been encouraging private sector investment in agriculture. The prices of agricultural products and inputs were completely liberalised and regulations substantially relaxed in the early 1990s. Currently, the private sector is allowed to export and import agricultural products without any state interference. In addition, state ownership of agricultural land has decreased substantially, and is now largely deregulated, with the exception of cotton and sugar products. As a consequence, productivity and yields of major crops have improved significantly. Agriculture output has been steady for several years. A growth rate of 3.4% was maintained

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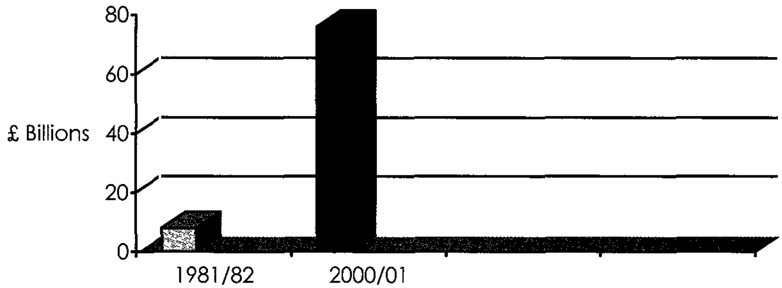
[25] Egypt Ministry of Planning and International Co-operation, 2004.

[26] *Egypt Country Strategy Paper*, African Development Bank, 2002.

during 2001–2002, although cotton production dropped to 285,000 tonnes in 2002–2003, as against 315,000 in the previous year.[27]

Value of Agricultural Production



Source: Egypt's Ministry of Agriculture, 2004

The areas under cultivation increased from 11.2 million acres in 1982 to 14.5 million acres in June 2004. That represents a 30% increase in cultivated land during this period. Limited water resources, rising water consumption and higher population growth have forced the country to become a net importer of foodstuffs.

In 2002–2003, agricultural products accounted for approximately 30% of the country's imports. These represented about 26.3% ($3.84 million) of total imports during 1995–1998.[28]

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[27] *African Economic Outlook, op. cit.*, 2004.

[28] *Current Trends in Egypt's Agricultural Sector*, Egypt Ministry of Agriculture, 2004.

However, the country has a competitive advantage in the production of barley, cotton, broad beans, maize, rice, and wheat. Egyptian farmers also cultivate high value crops such as flowers. The main agricultural regions are Middle Egypt, the Shara Governate, Newlands, the Delta region and Upper Egypt. Some desert land is being developed for agriculture, most notably for the ambitious Toshka project in Upper Egypt, but other fertile land in the Delta and Nile Valley is being lost owing to erosion and increased urbanisation.

The livestock sub-sector is an important source of dairy products and meat, which are largely consumed by the domestic market. There are no significant livestock exports. Almost 85% of livestock are kept on small farms, and are used as working animals to assist in crop production on irrigated land.

Egypt's agricultural sector accounted for an annual average of 11% of export earnings in 2001–2002. The value of agricultural exports increased from Egyptian pounds (EG£)0.5 billion in 1982 to EG£4.6 billion in 2004. Major export crops include cotton, lemons, garlic, potatoes, onions and medicinal plants. The development of the country's food processing industry is expected to further expand its exports of food products, fruits and vegetables. The country's association with the EU and the free trade agreement by 2010 are expected to open a new market for Egypt's agricultural exports.

Industry

Egypt's mining and industrial sector employed nearly 14% of the work force and contributed 19% of GDP in 2001–2002. The industrial sector (electricity, construction, manufacturing, petroleum and mining) comprises a large number of micro, small and medium enterprises and a few dominant large-scale companies. The existence of the latter is primarily attributable to the central planning policy introduced under President Nasser, which established large enterprises based on an import substitution strategy.

Manufacturing

Small and medium-sized enterprises now make up over 90% of the total number of firms in the sector. Manufacturing has grown by 5.4% per annum since 1996, and is the largest sub-sector within the national industrial sector. Manufacturing has also attracted over 20% of gross investment in industry. Since 1995, manufactured exports earned around $2.1 billion per annum. The country's major manufacturing exports include engineering, wood, chemicals, textiles and foodstuffs. On the other hand, manufacturing also accounts for approximately 48% of the country's imports, and includes machinery and transport equipment; petroleum, paper and wood products; and chemicals.

The engineering industry has shown healthy growth in recent years. The government has implemented an Industry Modernisation Programme to help raise productivity and efficiency in this sector. Between 2001–2003, metal goods and cement production rose 6.7% by volume. Even though the food processing industry has slowed down in recent years, it has continued to attract large foreign investment. In 2002, Kraft International bought out Egypt's Family Nutrition Company, and Heineken beat other rivals to obtain controlling shares in the country's Al Ahram Beverages. However, pharmaceutical firms have registered lower profit margins, because of their dependence on imports and the effects of new government price controls.

Construction

Since the 1980s, the construction industry has played an important role in the country's industrial sector. In 2000, Egypt's construction market with a value of $12.71 billion, was ranked 36th in the world, constituting 0.45% of the global market. Despite its fall from its 1998 ranking of 33rd, the Egyptian construction market actually increased in size by 23%.[29] Currently, the private sector contributes approximately 68% of local cement production.

The construction industry has made important contributions towards FDI inflows, employment and GDP. In 2001–2002, it contributed 4% of GDP, (EG£16.56 billion). In the same period, 8.3% of Egypt's total work force was employed in the industry. Since 2000, construction investments have doubled, to support the government's ambitious development strategy, and reached EG£41.2 ($9.5) billion in 2001–2002.[30]

Factors such as government policies and strategies, the availability of resources, the existence of supporting industries and institutional backing all affect the competitiveness and development of the construction industry. The government forecasts that construction should record an annual growth rate of 8.3% during the country's fifth five-year plan, which extends from 2002–2007.

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[29] *Foreign Trade & Industry Monthly Economic Digest*, Egypt Ministry of Trade and Industry, 2004.

[30] *Investing in Egypt Report*, Egypt State Information Service, 2004.

Iron and steel

Egypt is currently the largest producer of steel in the MENA region, followed by Saudi Arabia and Qatar. The country accounts for approximately 5.2% of global steel production. Large multinational firms such as International Rolling Mills, Ezz Steel and Delta Steel Mills have helped fuel the growth of this industry. Currently, the private sector contributes approximately 95% of the country's steel production.

Textiles

Egypt's textile sector has enjoyed considerable growth over the past decade. Between 1991–2001, it grew at a rate of 62%. In 2004, the textile and clothing industry received 6.5% of manufacturing FDI, or 3% of total FDI ($8 billion). Textile exports accounted for approximately 24.5% of Egyptian exports (excluding oil) in 2003.[31] The Egyptian textile and clothing industry is served by 4,491 enterprises, which employ 30% of those employed in the industrial sector.[32]

Pharmaceuticals

The country is currently the largest consumer and producer of pharmaceuticals in the MENA region. There is a high degree of concentration in the market, with the top 10 companies controlling 50%. However, their primary focus remains drug production rather than research. While 85% of primary inputs

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[31] GAFI Information Centre, 2004.

[32] Egyptian Textile Manufacturers Federation, 2004.

are imported, local production is geared towards manufactured products for local consumption and export. The domestic market for synthetic products (excluding hospital sales) was estimated at EG£5.7 billion in 2003. The most significant product areas are medicines for the muscular-skeletal, central nervous, respiratory, alimentary and metabolic system; and systemic anti-inflammatory drugs.

Table 3: Output of Manufacturing Sector by Activity (in million EG£)

Sector	*1998*	*1999*	*2000*	*2001*
Building Material Industries	7,928	8,738	8,974	10,596
Wood Products	911	1,023	1,062	1,162
Paper Products	3,620	3,876	4,429	5,918
Chemical Products	16,266	17,201	17,814	21,052
Metallurgy	11,388	11,685	12,335	12,853
Metallurgical Products	33,152	36,304	53,174	59,501
Spinning & Weaving Industries	16,140	17,118	17,914	18,914
Food Industries	3,341	33,141	34,346	36,138
Other Industries	654	680	396	1,361
Total	124,80	133,53	154,52	171,27

Source: GAFI Information Centre, 2004.

The value of pharmaceutical production has more than doubled since 2000, to reach a record EG£3.3 billion.[33] Some of

[33] *Foreign Trade & Industry Monthly Economic Digest*, Egypt Ministry of Trade and Industry & Egypt Ministry of Investment, 2005.

the major international pharmaceutical companies operating in the country are Pfizer, Bristol-Meyers Squibb, Hoechst, Merck Sharp & Dohme, Glaxo and Swiss Pharma.

Energy

In addition to the fertile agricultural land of the Nile Valley and Delta, the country's national resources include natural gas, petroleum, iron ore and phosphates. Egypt's natural gas and oil exports provide a constant supply of hard currency earnings for the government and contribute approximately 12% to GDP. Around 52% of the country's foreign exchange receipts from commodity exports are provided by crude oil exports. Currently, oil reserves stand at around 3.3 billion barrels. Close to 85% of crude oil production comes from oil fields developed in the late 1970s in the Gulf of Suez and the Sinai Peninsula. Natural gas is primarily found on the Mediterranean seashore, in the Nile Delta and in the Western Desert.

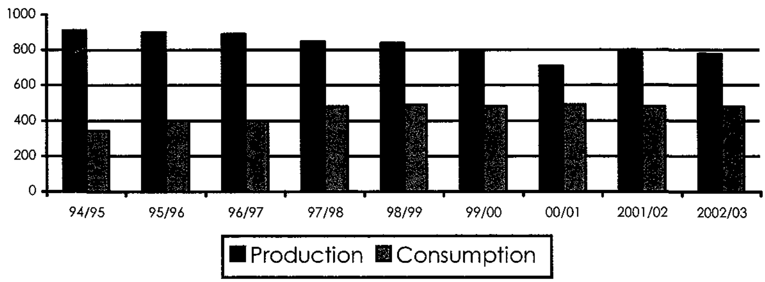
From 2003–2004, sales of petroleum and related products (industry bunker and aviation sales) amounted to $27 billion. However, crude oil production has been in decline for several years, from a peak of more than 920,000 barrels per day (BPD) in 1995 to 740,000 BPD in July 2004.[34] Nevertheless, new discoveries of natural gas in the Gulf of Suez and the Nile Delta are expected to offset these losses.

Since 1983, more than 230 gas and oil exploration agreements have been signed, and multinational oil companies have spent more than $27 billion on exploration. As of September 2004, proven gas reserves were calculated at 62

[34] The US Department of State's Consular Information Program, 2004.

trillion cubic feet (TCF), with another 40–60 TCF in probable additional reserves. The largest American investor in Egypt, Apaché Oil, which is based in Texas, has invested more than $2.8 billion since 1996.

Egypt's Production and Consumption of Oil (in thousands of barrels per day)



Source: General Petroleum Company, Egypt 2003

The Ministry of Petroleum's current strategic objectives for the short to medium terms are to increase exports of natural gas and expand the Egyptian petrochemical industry. To reduce the growing domestic demand for petroleum products, currently estimated at 25 million metric tonnes per day, Egypt is encouraging the production of natural gas. Since 2000, the country's output of natural gas has increased by approximately 75% to 3.3 billion cubic feet per day. Natural gas generated almost 50% of all hydrocarbon usage in the country by the end of 2004.

In June 2003, Egypt began exporting gas to Jordan via a new pipeline running from Al Arish on Egypt's north Sinai coast to Taba on the Gulf of Aqaba, and under water to the Jordanian city of Aqaba. Gas exports to Jordan generated gross revenues of approximately $60 million by 2003–2004, and are expected to reach $85–100 million by 2006.[35] In addition, three liquefied natural gas trains have become operational since September 2005. Jordan and Egypt also established the Eastern Gas Company to expand the export of natural gas to Lebanon and Syria. Egypt is poised to become the world's 6th largest exporter of natural gas within the next decade.

Table 4: Ten Largest Net Gas exporters in 2003 (in billions of cubic metres)		
1.	Russia	186
2.	Canada	102
3.	Norway	71
4.	Algeria	64
5.	Turkmenistan	43
6.	Indonesia	41
7.	Malaysia	25
8.	Trinidad and Tobago	25
9.	Netherlands	23
10.	Egypt (2008 projected)	21
Source: IEA, BP, Egypt General Petroleum Company		

Mining

Coal, iron ore and phosphate rock production dominate Egypt's mining sector. Phosphate is mined in the south of the country at Sebiya, close to the Red Sea ports of Qusair and Safaga, while iron ore is extracted at Baharia Oasis in the Western Desert. The country's coal mines are situated in the Sinai, at Maghara. The country has estimated reserves of over 15 million tonnes if the recently established mines in Ralkab are

35 *Ibid.*

included. The output of the Maghara mine in Sinai is estimated at 125,000 tonnes per year, and this is expected to increase to 600,000 tonnes annually by 2007.[36]

Services

In 2001–2002 the service sector accounted for 50% of the country's GDP. Important facets of this sector are national social services such as health and education, financial services and personal services. The most important contributor to the sector, however, is tourism, although it remains extremely vulnerable to regional instability, global economic slowdowns and domestic incidents of terrorism. As mentioned earlier, the tourism industry experienced an abrupt drop in numbers of visitors following the attacks on September 11, in 2001. Arrivals declined by more than 20% in the six months that followed. Although the industry subsequently recovered, the war in Iraq led to a 22% decrease in visitors in March 2003. The sector had made a quick recovery by June 2003, and has remained steady since. During this turbulent period, the Egyptian authorities campaigned hard in Eastern Europe and the Arab World to make up for the lack of tourists from Western Europe and the US.

Despite the vulnerability of the sector to external shocks, tourism continues to be the country's most important source of foreign earnings. It has reported a growth rate of 10% since 1992, higher than the world average of 7%. The country occupies a share of approximately 25% of the Middle Eastern tourism market. This growth is reflected by an increase in hotel

[36] *Egypt Country Strategy Paper, op. cit.*

capacity, particularly in the Red Sea and South Sinai areas; a rise in hotel occupancy levels; and a greater number of tourist receipts from international visitors.

Box 5: Tourism Industry Snapshot

- Hotel occupancy rates in 2004 reached 81.667 million, 53% more than in 2003.
- A tourist's average length of stay was 10.1 nights in 2004, compared with 8.7 nights in 2003.
- International tourist receipts in 2004 amounted to $6.120 billion, an increase of $1.45 billion from 2003.
- The direct and indirect contribution of tourism to GDP is 11.3 %.
- Tourism is the number one contributor to the economy, and represents 22.1% of Egypt's foreign exchange earnings.
- The number of hotels and tourist villages increased from 752 in 1995 to 909 in 2004.
- The number of companies investing in tourism increased from 86 companies in 1994 to 1,352 companies in June 2003.

Source: The Egyptian Central Bank, GAFI, Egypt Ministry of Tourism and WTO, 2004

The tourism industry directly contributes around 4.4% of GDP, while employing 7% or 2.2 million of the country's total work force. The industry remains almost entirely in the hands of the private sector. In addition, more than 70 other industries are indirectly or directly affected by its growth. Investment in the sector was close to EG£100 million ($23.5 million) in 2002, representing a significant and growing share (7.3% of total investment).[37] The government has opened investment

[37] *Egypt Business Study Series*, American Chamber of Commerce in Egypt, 2002.

opportunities in the Ras Sudr, Ain El-Sokhna, Red Sea, Aqaba Bay and Ras El-Hekma areas.

In 2003, the country attracted 5.7 million tourists, as compared with 2.5 million in 1993 and 1 million in 1982. Hotel accommodation capacity increased to 117 297 rooms in 2001, having been 85 000 rooms in 1993 and 18 900 rooms in 1982. The Egyptian Ministry of Tourism forecasts that the country will remain the region's largest tourism destination and will attract over 17 million tourists annually by 2020.

Tolls paid by vessels using the Suez Canal constitute another key source of foreign revenue for the country. In spite of the escalation of the Iraq War, and the increased insurance premiums linked to higher risks, revenues generated by the Canal continue to increase. The Suez Canal's income was placed at $3.27 billion in 2004, as against $2.81 billion in 2003.

Table 5: GDP by Sectors in 2001-2002

Sector	**Percentage**
Industry and Mining	20%
Trade, Finance and Insurance	20%
Government Service	17%
Agriculture	16%
Transportation and Suez Canal	9%
Petroleum and Electricity	8%
Construction	6%
Tourism	2%
Others	2%
Total	**100%**

Source: AFDB/OECD 2003

The Macro-economic environment

Fiscal policy

The central government's fiscal deficit increased to 6.1% in 2002–2003, from 4.7% of GDP in 1999-2000. However, this is expected to decline slightly to 5.6% in 2004–2005,[38] primarily because of a continuing drop in real interest rates, improving revenue collection, control of expenditure by the government and the depreciation of the currency.

The domestic banking system has been responsible for financing most of the fiscal deficit. As a result, the government's total debt has gradually increased. The government's gross internal public debt increased to 103% of GDP in 2002–2003, having been 91% in 2001–2002.[39]

The increase in government debt can be attributed to a fall in tax and non-tax revenues from mineral resources (principally crude oil); a drop in monopolistic profits due to the increased privatisation of state-owned enterprises; the short-term implications of trade liberalisation; and rising public spending.

Public spending rose from 26.2% of GDP in 1999–2000 to 28.3% of GDP in 2003–2004. The servicing of external and domestic debt constitutes the largest source of spending, accounting for 28.2% of the total.

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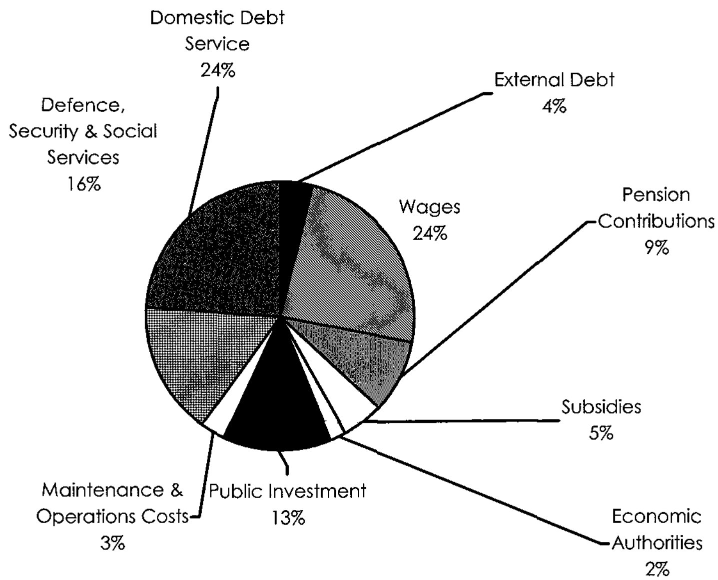
[38] *Annual Report*, Central Bank of Egypt, 2004.

[39] *Ibid.*

Expenditure 2003/04



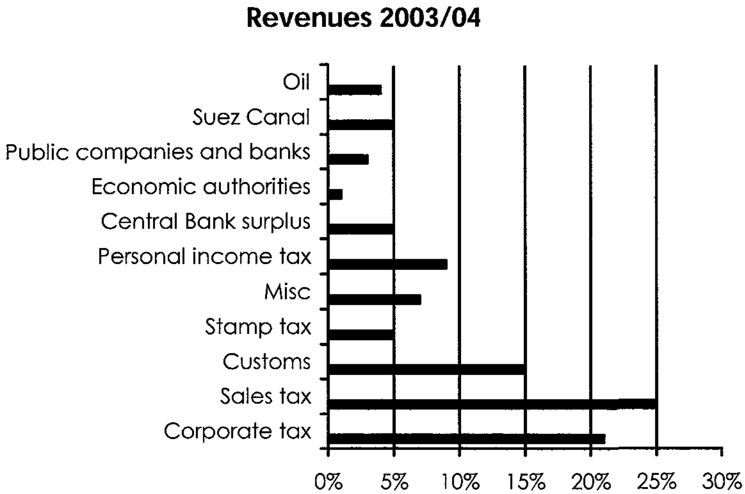
Source: People's Assembly Budget Committee Report (2003)

The second largest source of expenditure is the government salaries and wage bill. Government salaries have increased over the years to offset rising living costs, increase productivity and boost morale.

Another source of expenditure is transfers of funds to public economic authorities and contributions to the pension and retirement funds of government employees, which account for over 16% of total expenditure.

At the end of 2001, the government introduced a fiscal structural reform programme to address the country's deteriorating fiscal situation. A new income tax law, which stipulates that unified tax rates are to be applied to total income, and removes separate and complicated taxes relating to the source of income, is to be passed by parliament soon. The government is also reviewing tax exemptions on interest earnings. Lastly, the law will help to streamline and simplify the number of personal tax brackets and equalise the treatment of personal income for tax purposes.

To help strengthen the effectiveness of this tax law, the government will take three important steps. The first is to reduce the tax rates to 32% from their current rate of 40% on manufacturing, and to 25% for exporting companies. By lowering the tax rates, the government hopes to limit tax evasion and increase tax revenues. The second step is to strengthen tax administration. Companies complain that corrupt tax officials and bureaucratic red tape complicate the process of tax collection, and that compliance is expensive and time-consuming. This process will attempt to shift the focus from widespread inspections and audits to taxpayer categories. The last step the government plans to take is to modify the incentives structure so as to improve the ability of potential and current taxpayers to carry out their obligations. The authorities plan to provide benefits and discounts to law-abiding, co-operative taxpayers while imposing stiff penalties on tax evaders.



Source: People's Assembly Budget Committee Report (2004)

Table 6: Financial Indicators

Real Sector	*2001 –02*	*2002 –03*	*2003 –04*	*2004–05 Projected*	*2005–06 Projecedt*
Net public debt (% of GDP)	61.9	65.9	65.7	63.7	63.9
Broad money growth (annual rate)	15.3	17.3	13.2	13.2	16.3
Credit to the private sector (annual growth rate)	7.9	1.6	3.9	3.9	4.2
Interest rates on 91-day treasury bills (%)	7.8	8.3	8.4	-	-
Trade balance (% of GDP)	-8.6	-8.1	-10.2	-9.9	-9.0

Table 6: Financial Indicators (continued)					
Real Sector	**2001 –02**	**2002 –03**	**2003 –04**	**2004–05 Projected**	**2005–06 Projecedt**
Current account balance (% of GDP)	0.6	1.9	3.4	4.2	3.5
Reserves ($ bn)	14.1	14.8	14.8	17.2	19.9
Reserves (in months of imports of goods and services)	8.7	9.1	7.6	7.2	7.6
Exchange pounds per $ (average)	4.33	5.13	6.16	-	-
Size of informal sector	40.1%[40]			25–30%[41]	25–30%
Source IMF Public Information Notice (PIN) No 05 72, 2005					

Monetary policy

The Egyptian government undertook an ambitious monetary policy reform programme in September 2001, in an attempt to address the liquidity crisis and revive economic growth. The programme centred on the minimisation of reserve ratios for liquidity and bonds, while decreasing the discount rate. Following the pound's being pegged to the US dollar for almost a decade; the government opted to devalue the currency three times in 2001. For two years, the government faced considerable external pressure to keep the currency from weakening further. In January 2003, the government, in an attempt to release some of the pressure on the pound, floated it in open trading. However, the Central Bank did not float it

[40] *Egypt's Neglected Engine of Growth*, American University of Cairo and American Chamber of Commerce.

[41] *Egypt Fact File*, South African Institute for Security Studies and United Nations Industrial Development Organisation, 2004.

completely, as it continued to place restrictions on external transactions in pounds. The move to curtail depreciation of the currency failed. The pound fell by a further 25% in December 2003 in relation to the US dollar, trading at EG£6.80 to the $1 and EG£7.70 to 1 euro.

At the same time, foreign exchange was difficult to obtain because of the 48% depreciation of the Egyptian pound against the dollar over three years. Traders and firms charged parallel market rates that were 20% higher than the official rates. The parallel rate was set at around EG£6.80 to the dollar in March 2003. By December 2003, however, it had dropped to just 5% above the official rate of EG£6.50 to the dollar.

However, with the floating of the Egyptian pound, the Central Bank was forced to raise interest rates, while reserves shrank. Subsequently, the Bank intervened to stop a further devaluation of the pound. By January 2003, interest rates had stabilised at 10.5%, while debit rates rested at 13%. The money supply recovered some ground by growing to 9.3% that year.

In the aftermath of the pound's slide, banks stopped issuing loans to private investors as a way to minimise risk. By the same token, they started to invest heavily in treasury bonds. They declined to advance loans to small and medium enterprises, while advancing lines of credit to large public corporations active in the natural gas, communication, food processing, electricity and oil sectors.

Nevertheless, inflation continued to rise with the currency's slide. It stood at 5.2% in 2003–2004, in contrast to 3% in 2002–2003 and 2.4% in 2001–2002. The introduction of consumer price subsidies for 15 staple foods kept inflation under control. The Central Bank forecast that inflation would drop to 2.7% in 2004–2005.

In an attempt to increase the currency reserves at state-owned banks, the Egyptian government called on exporters to bank around 75% of the proceeds of their foreign currency transactions. The remaining amount would be utilised for import purchases. However, this proposal did not work effectively, as many exporters failed to submit comprehensive documentation on all foreign currency deposits. Nevertheless, the government recorded a sufficiently healthy balance of payments to cover over 10 months of imports in June 2003. The shortage of foreign currency represented an obstacle to the growth of businesses, rather than a liquidity crisis to the government. Increased tourism receipts and heavier flows of traffic on the Suez Canal have since made up for the lack of foreign hard currency derived from businesses.

Trade and Business Linkages Between South Africa and Egypt

South Africa is a marginal investor and trading partner for Egypt. This is largely due to the fact that the country is a relative newcomer to the Egyptian market. South African companies also face stiff competition in Egypt's diversified market from long-established local and foreign companies operating there. South Africa's trading and investment relations with Egypt have to be evaluated against this background.

High import tariffs; outdated management techniques applied in public enterprises; lack of innovation; obsolete machinery; and strong protectionist and import substitution policies over decades hindered the development of Egyptian manufacturing industries. As a result, they were unable to integrate with the world's economy. The country's leaders witnessed in dismay the deterioration of Egypt's external trade and investment relations. The country's share in global exports of goods and services dropped from 0.15% in 1980 to 0.10% in 1990.[1] Despite the government's macroeconomic stabilisation programme in the early 1990s and the liberalisation of the Egyptian economy, the country's share in world exports fell further, to 0.07% in 2000. In comparison with other emerging economies, Egypt's efforts at promoting and expanding its exports to boost economic growth were disappointing.[2]

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1 World Development Indicators, World Bank, 2003.

2 In contrast, countries such as Malaysia, Mexico, Indonesia and the Philippines, which are in stages of development similar to Egypt's, have witnessed remarkable growth over the past decade due to strong export-led growth policies.

Even countries in the MENA region such as Morocco, Tunisia, Syria, Jordan and Turkey, which had low ratios of exports to GDP like Egypt's in the late 1970s and 1980s, succeeded in raising their export portfolios by the 1990s. By 2001, all of these countries had recorded a higher share of GDP to exports than Egypt, which is the only country in the region that had a lower share of exports to GDP in 2001 than in 1985.[3]

Table 7: Structure of Imports and Exports, 2003

Imports	**Percentage**
Intermediate Goods	29%
Investment Goods	22%
Raw Materials	18%
Non-Durable Consumer Goods	13%
Fuels, Mineral Oil & Products	7%
Others	6%
Durable Consumer Goods	5%
Total	**100%**
Exports	**Percentage**
Fuel, Mineral Oil & Products	38%
Finished Commodities	37%
Others	10%
Semi-finished Commodities	8%
Raw Materials	4%
Cotton	3%
Total	**100%**

Source: Central Bank of Egypt, 2003.

Egypt substantially altered its overall regulatory framework for trade policy formulation in 2001 and in a bid to revitalise its ailing export revenues, the government entered into a large

3 Part of the reason for this is the country's high water utilisation for food crops and strong protectionist policies which continue to handicap the growth of Egypt's exports.

number of regional trade agreements in the late 1990s. In June 2002, the country signed an Association Agreement with the EU, which established a free trade area for a transitional period of 12 years. Throughout this period, Egypt is to gradually phase out non-tariff and tariff barriers on European manufactured products. In 2001, the country also joined the Common Market for Eastern Africa and Southern Africa (COMESA). Egypt hopes to promote bilateral trade with its 22 member states. By the end of 2004, Egypt had also concluded trade agreements with Jordan, Tunisia and Morocco. It plays an important role as a member of the Greater Arab Free Trade Area, and it has signed trade protocol arrangements with the US and Israel.

Box 6: Egypt's Trade policy

Trade is an integral component of Egypt's national economy. The country's current macro-economic stability and recent economic growth have been made possible by the government's expansionist trade policy since 2001, aimed at increasing exports and finding alternative markets for Egyptian products. Historically, the country has been a net service exporter, with service income exceeding that generated by manufactures and processed products. Fuel products constitute the country's most important export merchandise. In 2003, they accounted for 43% of Egypt's commodity exports. This was followed by manufactured products, which made up 30% of merchandise exports, while agricultural products accounted for the remaining 15%. Cotton is the country's most important agricultural export product. However, the share of textiles in the country's export portfolio has dropped in recent years, from 16.6% in 1995 to about 4.5% in 2003.

Box 6: Egypt's Trade policy (continued)

The country's newly-formed Ministry of Foreign Trade, established in November 2004 through a merger of the Ministry of Industry and Technological Development and the Ministry of Foreign Trade, takes responsibility for the implementation of the country's trade policy.

An active member of the General Agreement on Tariffs and Trade (GATT) since the 1970s and the WTO since June 1995, Egypt is also an integral part of the Multilateral Trading System (MTS). It provides MTS treatment to all WTO members.

On the domestic front, a number of Egypt's national policy initiatives have been addressed by several of the government's trade policy instruments. In 2005, Egypt reduced over 98% of its tariff lines, at rates averaging 37.5% in 2005, as compared with 45% in 1998. Egypt's present applied MFN tariff structure was implemented in September 2004, with significant across-the-board cuts and a reduction in the number of tariff bands to 12.

As a result, the average applied MFN tariff has fallen from 26.8% in 1998 to 20%.[4] However, the country's tariff structure remains complicated by certain concessions and exemptions. For example, it applies tariffs of 3,000% to alcohol spirits and alcohol.

Since July 2001, Egypt has been implementing the WTO Agreement on Customs Valuation. In an effort to improve domestic customs procedures, it eliminated customs charges and fees by up to 5% on all imports. The country also lifted import prohibitions on most clothing and textiles. More importantly, Egypt does not apply tariff quotas to other less developed countries in the region.

To safeguard the competitiveness of its local industries, the country launched a programme to ensure that the quality of Egyptian export products would comply with international regulations. The programme is expected to be completed in early 2006.

In addition, the country passed its first comprehensive legislation on competition in February 2005. The Competition law forbids market sharing, price collusion, production restriction and the abuse of a dominant market position by any company.

4 *Egypt Trade Policy Review*, World Bank Organisation, 2004.

Box 6: Egypt's Trade policy (continued)

Government procurement legislation grants a 15% price preference to Egyptian bidders. Tariff reductions on imported inputs for certain assembly industries are contingent on local-content requirements.[5]

These measures were designed in part to help strengthen and modernise small and micro enterprises, because the authorities believe that a strong private sector composed mainly of small to medium companies is pivotal to the growth of the national economy.

Egypt promotes exports through official guarantee schemes and credit, and follows an ambitious marketing programme. The government has established free zones in strategic areas of the country to promote employment, skills transfer and export-oriented investment. In 2002, the investment authorities passed a new Export Promotion law, under which more than 50 processed and raw agricultural products became subject to quality control prior to exportation. It also stipulated that the country would not apply any charges, levies or export taxes.

In 2004, the US, Italy, Germany and China were Egypt's main trading partners. (Refer to **Appendix H** for a detailed breakdown of Egypt's key import and export partners.)

Simultaneously, the Egyptian authorities have begun to look further south on the continent for more trading opportunities. Egyptian trade officials have identified South Africa as a lucrative destination for Egyptian goods and services. As the continent's largest economy, with a market size of 44 million people, South Africa provides an alternative and attractive market for Egyptian semi-manufactured and manufactured goods. With a per capita income of $3,630, South Africa also offers a strong consumer base for Egyptian agricultural, semi-processed steel, cement, natural gas, oil, and light manufactured goods that are relatively cheaper than their

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[5] *Ibid.*

American and European counterparts and of similar quality to those originating from Asia.

On the other hand, Egypt offers an attractive destination for South African consumer products. South African companies view Egypt, a middle-income nation with a per capita purchasing power of $1,390 and a large domestic market of 77.5 million, as a market with immense potential for expansion and growth. Egypt's well-established ports and trade routes linking the Middle East and Africa; its proximity to the European market; its general political stability; its good transport routes to other parts of Africa and Western Asia; and its trade agreements with the EU, COMESA and MENA enable the country to serve as an access point for South African products.

Until recently, trade relations with South Africa have remained marginal in the MENA region, which relies heavily on products originating from Europe, the US and the Arab world. South African exporters are eager to expand into North Africa, a region blessed with large markets, high economic growth, moderately developed industrial bases, a well-maintained infrastructure and moderate political stability. By tapping into the North African and the Middle Eastern markets, South African companies hope to have access to not only the region's market of around 400 million people but also to the 450 million inhabitants of the EU countries.

Trade between South Africa and Egypt is slowly expanding. Currently, Egypt is ranked 61st on the list of South Africa's overall export destinations, and 68th in terms of overall imports into South Africa. In 2003, its imports from South Africa were worth R269.04 million, an increase over the R190, 82 million in 2002. Egypt imports heavy machinery, chemicals, plastics, foodstuffs, base metals, vehicles, optical and photographic items, wood products and vegetables from South Africa. On the other hand, its exports to South Africa stood at R358.02 million, as against R109.90 million the previous year. Imports from Egypt to South Africa include machinery, plastics, vegetable products, textiles, chemical products, wood products, light manufactured goods, foodstuffs, base metals and aircraft parts.

Bearing in mind the increase in bilateral trade between the two states, Egypt opened a well-staffed trade office as part of its diplomatic mission to South Africa. The South African Department of Trade and Industry is investigating the option of placing a full-time permanent trade officer at its embassy in Cairo by 2006. In the meantime, a marketing officer is responsible for overseeing trade and economic matters between the two states.[6]

Both the South African and Egyptian governments have recently called on their trade missions to explore openings within their markets to promote bilateral trade and investment. The South African trade mission has been required to examine ways in which South African companies can take advantage of Egypt's recent monetary, fiscal and economic reforms and its introduction of numerous investment incentives. The South African embassy in Cairo, in an effort to promote South Africa as a tourist destination for Egyptian travellers, recently arranged for a group of Egyptian journalists to visit South Africa. On the other side, the Egyptian Ministry of Trade has called on the Egyptian trade mission in Pretoria to undertake fact-finding studies on the kinds of products Egyptian exporters can provide for the South African market.

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[6] Some of the logistical support offered by the embassy to South African firms includes research into the Egyptian market and trade facilitation with Egyptian government officials and businesses.

South Africa and Egypt are also co-operating on a number of governmental levels, in an effort to resolve outstanding obstacles to bilateral trade. In July 2003, the South Africa–Egypt Joint Bilateral Commission concluded its sixth open session. It is the only African Commission north of the Sahara that has regularly met since 1995. Since its inaugural session in 1995, 29 bilateral agreements have been signed. Some of these pertain to energy; scientific and technological co-operation; an agreement on the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income; the promotion and reciprocal protection of investments; co-operation in the electricity and energy fields; and co-operation in the tourism and services sectors. (See **Appendix B** for further information.)

Furthermore, both countries are examining the prospects of removing non-statutory and statutory barriers to trade between them. A programme of action was agreed upon during the 6th session of the Joint Bilateral Commission, which called for the establishment of a time-bound programme of co-operation on outstanding agreements, most notably the proposed Free Trade Agreement (FTA) between South Africa and Egypt. Representatives from both countries are expected to convene later this year in Egypt at the 7th Joint Bilateral Commission to discuss progress on the FTA. Analysts expected that agreements on closer co-operation in the fields of health, agriculture and transportation would also be signed.

Even though Egypt is South Africa's second-largest trading partner in North Africa after Morocco, many government officials in both countries firmly believe that trade relations are not satisfactory. Some trade analysts in the two countries argue that existing trade relations lack depth and maturity. For example, extreme efforts by South African trade officials over the past couple of months to engineer the lifting of a ban by the Egyptian government on South African meat and meat products have come to naught. Government officials in both countries have recently concluded that both South Africa and Egypt need to move away from the competitive relationship that has characterised bilateral relations over the past decade to a more complementary interaction. It is the only way in which both countries can reap the benefits of increased bilateral trade.

Table 8: South Africa's trade with Egypt (R million)

Year	*Exports*	*Imports*	*Trade surplus/deficit*
1992	35,998	6,051	+29,947
1993	56,206	6,792	+49,414
1994	71,429	91,193	-19,764
1995	89,957	368,999	-279,042
1996	184,814	228,007	-43,193
1997	145,383	189,792	-44,409
1998	133,202	299,008	-165,806
1999	139,854	82,307	+57,547
2000	126,494	52,312	+74,182
2001	275,039	72,829	+202,210
2002	190,819	109,903	+80,916
2003	269,041	358,021	-88,980

Source: The South African Department of Trade and Industry, *www.dti.gov.za*, 2004

Investment

Dismantling bureaucratic barriers, streamlining investment procedures and liberalising the business environment formed the basis of the Egyptian government's policy to foster an investment-friendly environment for both international and domestic investors. In 1971, the government passed the first law of several (No 65) to initiate its new investment policy. This law offered foreign investors tax privileges and attractive benefits in the fields of banking, tourism, industry, agriculture and land reclamation projects.

In 1997, the government amended Law No 230, of 1989, and enacted the altered version as the Investment Guarantees and Incentives Law No 8. Today, it remains the government's main investment law. Its terms allow complete repatriation of capital; provide guarantees against nationalisation and confiscation; permit 100% foreign ownership of investments; reduce tariffs (by 5%) to 55%; and secure the right of remittance of all earned income on investments. It eliminates the government's list of categories requiring approval prior to the commencement of FDI by foreign investors, which the previous law contained. It also provides special privileges such as tax exemption for all equipment, articles and machinery operated by foreign investors in the free zones.

Law 8 of 1997 further establishes areas of exemption and partial tax on imports. For example, in the South Valley area, projects are exempted from taxes for up to 20 years, while in the tourism sector, foreign companies are exempt from duties on industrial, commercial and corporate profits and imported supplies for five years. Lastly, the law establishes 16 designated sectors, the free trade zones, where foreign investors are provided with additional privileges and incentives. These include free infrastructure, computer software, oil and gas, financial leasing and housing.

In 1998, the government passed the Capital Markets Law (No 95), which gives complete access to the stock exchange and capital markets to foreign investors. It further establishes a new regulatory framework for financial sector reform. In the same year, the Egyptian government passed Banking Law 155, which provides foreign investors with up to 100% ownership of

Egyptian companies. It also allows foreign bank branches in the country to receive equal tax benefits with local banks and more importantly, equal treatment. Foreign banks are also permitted to deal in local currency denominations.

In April 2002, the General Authority for Investment and Free Zones was transformed into a `one-stop shop', and investment service pool (ISP) by presidential decree. The ISP brought together representatives of the relevant government agencies and authorities at both the provisional and national levels. The aim was to minimise the effort, cost and time required of foreign and local investors wishing to establish new venture capital projects and investments. Branches of the one-stop shop were established in the Ismalia, Alexandria and Assuit governates. The ISP provides information technology facilities to foreign investors in the form of analytical reports, data and comparative studies on investment opportunities in the country.

In July 2004, a new Ministry of Investment was established to co-ordinate investment policies with various other ministries and investment-related bodies. The new Ministry regulates the activities of GAFI, the Egyptian Insurance Supervisory Authority, the Capital Market Authority, the government's privatisation programme, and the General Authority for Real Estate Mortgage Affairs. In the same year, the government passed a new law, the Special Economic Zones Law (No 83), which not only covers the traditional means of attracting investment (such as customs exemptions, tax holidays, full ownership and repatriation rights), but also focuses on the country's investment environment as a whole. The law grants a reduced unified tax rate on all incomes and activities in the area in which it operates of 10%, as opposed to full tax exemption, as was the case with previous legislation. Furthermore, the law exempts employment contracts entered into between parties engaged in activities inside the designated zone from the strict constraints on downsizing the labour force, which are to be found in the Egyptian labour law.[7]

The special economic zones now also address customs clearance and taxation issues by introducing alternative methods of customs and tax administration, as opposed to simply reducing taxation rates. This is primarily an attempt to lighten the bureaucracy and streamline customs procedures. Lastly, the law attempts to lighten the administrative burdens relating to local council supervisory regulations and traditional zoning. It does this by initiating special infrastructure projects and zoning planning procedures. Today's legislation is the result of rigorous efforts by the policy-makers to provide fair and predictable taxes, flexible labour regulations, sound corporate governance, adequate communications and infrastructure, a predictable judicial system and sound monetary policies.

The government's central policy for attracting FDI has not changed, even with the granting of different benefits and incentives to priority sectors. With each investment law, the government has increasingly strengthened the regulatory, monetary, and legal spheres to boost investment levels and encourage private sector participation.

In sum, Egypt's drive to promote FDI has involved:

- Commissioning feasibility studies to identify current and potential opportunities for investors;
- Reforming the laws governing FDI;
- Creating a single body (rather than the many previously involved) to cater for the technical needs of investors;

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[7] Egypt Ministry of Investment, 2004.

- Modernising and streamlining the performance of all bodies dealing with investment matters;
- Raising real savings rates gradually, to help finance small and medium enterprises, and
- Strengthening the capacity of leasing firms to help them provide financial assistance to small and medium enterprises.

The state's investment regime has helped to create a more investment-friendly climate for foreign investors. FDI into Egypt has increased over the past two decades. This is a departure from the periods of capital flight that the country experienced during the 1950s and 1960s, when President Nasser was experimenting with socialism and nationalism. FDI flowing to Egypt since the mid-1970s has demonstrated a continual but cyclical growth pattern. In the period from 1986–1990, FDI inflows reached their peak of around $1 billion per year. However, they fell to $509 million in 2000–2001, and dropped further, to around $390 million, in 2001–2002 owing to a slowdown in the Egyptian economy and a perception among potential investors that Egypt was dragging its feet on economic reform.[8] However, the government expects a substantial rise in FDI flows to follow its new drive to finalise the country's privatisation programme. The country's expected economic growth over the 2004–2007 period is also likely to attract investors.

However, Egypt's FDI flows (as with those of many other less developed countries in the region) are highly susceptible to external shocks. It's attractive investment climate and wide range of incentives and benefits for foreign investors have not been entirely successful in offsetting various negative

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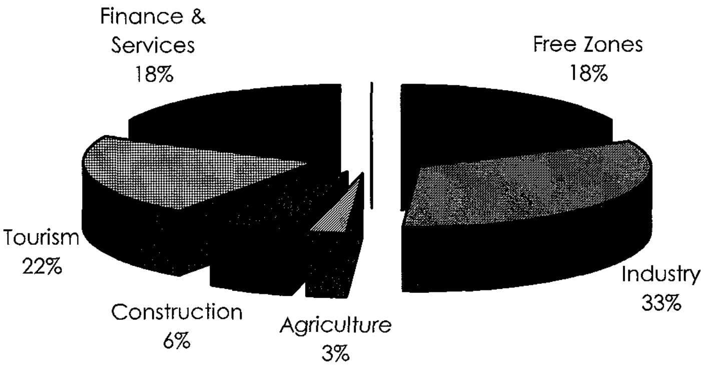
[8] *UNCTAD World Investment Report*, 2004.

influences at work in the global context. These include a general aversion to invest in developing regions felt by the international or foreign investors; the Asian economic crisis; the political uncertainty in the region; and the vulnerability of Egypt's tourism industry to terrorism. At present, the telecommunications and petroleum sectors attract the bulk of FDI flows into the country. Arab investments represent 46% of FDI stock, while European and US investments make up 31% and 7% respectively of the remainder.[9]

Foreign Investment by Sector



Source: General Authority for Investment and Free Zones, 2004

A quick overview of Egypt's investment indicators in 2004 reveals that the total number of incorporated companies rose to 29,094, which included 12,384 inland investments, 1,594

[9] The Egyptian British Chamber of Commerce, 2001.

capital finance companies and 761 free zone companies.[10] Total investment costs were placed at EG£367.9 billion, including EG£206.3 billion, for inland investment, EG£78.5 billion for free zones and EG£83.1 billion for capital finance companies.[11] Issued capital stood at EG£183.2 billion, including EG£120.5 billion for inland investment, EG£28.3 billion for free zones and EG£34.4 billion for capital finance companies.[12] The sum of foreign contributions was EG£ 37.2 billion, with EG£28.6 billion for inland investment, EG£6.7 billion for free zones and EG£1.9 billion for capital finance companies.[13] Closer examination of these figures has led many policymakers in the country to conclude that the country has not attracted sufficient FDI to fulfil its potential.

Table 9: Foreign Investment Inflows by Country of Origin, 1999–2004 ($ million)

	1999/2000	*2000/01*	*2001/02*	*2002/03*	*2003/04*
Net FDI	1,656.1	509.4	428.2	700.6	407.2
Inflows	1,691.2	510.1	532.0	891.9	435.0
United States	459.7	196.2	159.0	277.5	229.4
EU	25.6	0.1	17.5	27.0	10.9
France	62.4	129.4	208.1	61.4	0.3
UK	178.7	0.0	12.3	28.0	16.9
Spain	3.6	0.0	83.8	177.5	0.0
Netherlands	0.0	0.0	0.0	288.6	2.2

[10] The General Authority for Investment and Free Zones, 2004.

[11] In December 2005, the exchange rate was $1: EG£5.77 and EG£1: R1.11.

[12] General Authority for Investment and Free Zones & Egyptian Ministry of Investment, 2004.

[13] *Ibid.*

Table 9: Foreign Investment Inflows by Country of Origin, 1999-2004 (continued) ($ million)

	1999/2000	*2000/01*	*2001/02*	*2002/03*	*2003/04*
Portugal	486.0	0.0	38.8	0.0	0.0
Arab countries	100.6	12.1	3.5	15.4	152.2
Saudi Arabia	4.7	2.2	0.9	3.7	4.0
UAE	29.8	5.6	0.1	0.2	3.3
Kuwait	1.6	3.9	2.5	9.0	17.6
Oman	0.0	0.0	0.0	0.0	96.1
Bahrain	64.5	0.4	0.0	0.0	15.0
Lebanon	0.0	0.0	0.0	0.0	15.0
Other Countries	373.2	24.5	6.3	14.6	10.9
Switzerland	22.8	5.8	2.0	4.0	5.3
Japan	0.0	0.0	0.0	2.0	0.5
Mexico	340.0	0.0	0.0	0.0	0.0
Outflows	35.1	0.7	103.8	191.3	27.8

Source: GAFI, Egyptian Ministry of Investment and the Central Bank of Egypt, 2004.

The Egyptian authorities have therefore begun to look for other sources of FDI. Given its location on the African continent, its large industrial and manufacturing base, its relatively modern local industries and its competitive agricultural, manufacturing products and services on the international trading system, South Africa has been identified as a potential source of FDI. Egypt has used the Bilateral Commission to promote its investment opportunities to South African investment and trade bodies.

Indeed, the encouragement of trade and investment has been an important focus of Egypt's relations with South Africa over the past decade. Stronger trade links between the two countries are expected to improve Egypt's relations with southern Africa, a region previously neglected in the country's foreign policy agenda from the late 1970s to the late 1990s. By the same token, South African government officials have indicated their desire to promote South African investment in the rest of the continent, especially in North Africa by way of Egypt, because this is a region that has traditionally been outside South Africa's sphere of influence.

In 2001, Dr Nkosazana Dlamini Zuma, South Africa's Minister of Foreign Affairs, and Ms Brigitte Mabandla, Deputy Minister of Arts, Culture, Science and Technology, accompanied by an official delegation of prominent South African businessmen and potential investors, met Egyptian officials in Cairo. Both sides agreed to work together in the fields of agro-industry, agro-processing, biotechnology and water conservation. They also established a business forum and a business council to help share information on existing and potential investment opportunities in their respective countries. The hosting of a tourism workshop for tourist agencies in both South African and Egypt was also discussed.

During the Sixth Bilateral Commission in July 2003, South Africa and Egypt agreed to discuss ways in which institutional co-operation could be strengthened, and on the need for an exchange of expertise in the fields of manufacturing, services, agriculture, science and technology. This would serve as the basis for higher volumes of trade and investment between the two countries. They also agreed to set up fact-finding missions between them to help explore opportunities for increased bilateral interaction. Both sides noted that the FTA under negotiation would facilitate the exchange of goods and services and open up the markets of both countries to further investment.

However, in spite of efforts by both the South African and Egyptian governments, South Africa remains a marginal foreign investor in Egypt in comparison with the latter's traditional partners from the Arab World, the US and the EU. As a result, South African investments have not yet had much impact on the local economy. This is partly because South African companies started investing in the country only about five years ago. South African investors continue to lack familiarity with the Egyptian business culture and investment environment. Also, language barriers have prevented South Africans from breaking down these constraints.

Currently, there are four established South African companies and 20 subsidiaries and agents of South African companies operating in Egypt.

Table 10: Total Number of Companies Registered under GAFI, Investment Law 8/97 by Economic Sector — 2003

Sector	*No. of Companies*	*Issued Capital (EG£ billion)*	*Employment*
Industry	8948	51.33	652
Agriculture	960	4.85	85
Construction	364	8.14	73
Tourism	1352	32.73	184
Finance and Service	1417	27.66	64
Total inland	1,3041	124.7	1,058
Total Free Zones	747	29.3	94
Grand Total	13788	154	1152

Source Investing in Egypt 2004, report by MOFT, www economy gov eg

South African Companies in Egypt: Perceptions, Challenges and Experiences

The South African Institute of International Affairs (SAIIA) survey of South African companies investing in Egypt found that almost all respondents regard the country as showing substantial potential. Over the past eight years, Egypt's economic growth has averaged 4.4% per year, and this, together with recent improvements in the business and investment climate, has attracted more South African firms to the country.

Overall, South African businesses have done well in Egypt. Although South African firms are at present marginal players in all sectors of the Egyptian economy, they are slowly becoming more important. They are often seen as an alternative to European, American and Arab investors, who have been criticised for their lack of sensitivity towards the Egyptian way of life, cultural practices and norms. Even though most of the companies surveyed hold a mere 10% or less of market share in their respective sectors, the majority are optimistic that this state of affairs will change in the coming years. The reasons they give are rising living standards and economic growth, and growing recognition of South African products among Egyptian consumers, who are eager to experiment with alternative products from Africa. However, South African companies will continue to face strenuous competition from Egypt's traditional foreign investors, chief among whom are the EU, the US and the Arab World.

In terms of the nature of investments, most South African companies are brownfield and greenfield enterprises. South African firms have also tended to enter the Egyptian market through joint ventures with local partners. In a large number of cases, local partners have helped them to overcome the conflicts in business practice between South Africa's and Egypt's commercial cultures, because they are well acquainted with local business dealings, business ethics, transactions, ways of communication, methods of arbitration and cultural and religious sensitivities. In addition, Egyptians have helped not only to inform their South African business partners but to integrate them into the local business and cultural environment. In the majority of cases, South African investors have also taken steps towards adjusting themselves to life in Egypt. They have taken Arabic classes and became better versed in Egyptian life, culture, and history using a variety of sources. They are slowly merging their South African business practices with those of Egypt to help them succeed in this sometimes-unfamiliar market.

South African companies are slowly becoming important players in the construction, retail, agriculture and engineering sectors in Egypt. Other South African entrepreneurs are active in the manufacturing, shipping, energy and pharmaceutical industries. Some of the largest South African firms and agents currently operating in Egypt are Columbus Stainless, Sasol, Carson Products, Richards Bay Minerals, Langeberg South Africa, BHP Billiton SA, Bell Equipment, Macsteel, Murray & Roberts, Shoprite Checkers, Karsten Farms, Safmarine Shipping and Ash Resources.

Construction

The construction giant Murray & Roberts entered into a joint venture with Al Habtoor Engineering of the United Arab Emirates and Egypt's SIAC in April 2001, to build the seven-star San Stefano hotel and residential complex in the port city of

Alexandria. The project is worth over $100 million. However, its completion has been delayed by over a year due to contract disputes between Murray & Roberts and its Arab partners.

Retail

Investment in Egypt by South African retail chains is growing. Over the past five years, Shoprite Checkers has opened seven stores around Cairo, at a cost of over R100 million. It also plans further investments in Egypt's tourism resorts along the Red Sea. Even though the region has suffered bomb attacks from Islamic extremists, the company is confident about its expansion plans. Its representatives believe that the size of its market will continue to grow.

Manufacturing

Companies from South Africa are new entrants to the Egyptian manufacturing industry, and currently enjoy a market share of 15%. One of the bigger South African investors in this industry is MacSteel. The firm has invested over R300 million since it commenced operations in the country in 2000. Its subsequent exportation of stainless steel grew from 25,000 tonnes in 2001 to over 230,000 tonnes in 2003. It plans to extend its operations to other parts of the country, given the country's favourable investment climate and the enthusiastic response of Egyptian consumers to its products.

Agriculture

South African agricultural firms are slowly positioning themselves in the Egyptian market. Karsten Farms started operating in Egypt just over two years ago. The company is involved in three wine farms in the north of the country with local partners with a view to establishing the production of white wine in the country. The company aims to make investments of up to $10 million over the next five years, and plans to expand its farming interests to other parts of the country, especially to Upper Egypt.

Pharmaceutical

South African companies have yet to penetrate the Egyptian pharmaceutical sector fully. The only significant South African investor at present is Carson Products, which controls less than 5% of the market share. Through its dealer, Gem Import and Export, the company first started distribution activities in 1992. Today, it faces stiff competition from local players, who have a long-standing competitive advantage and a large consumer base. Although superior in quality, South African pharmaceutical products tend to be more expensive than local products. To date, Carson Products has invested over R3 million in the country.

Engineering

South African companies constitute a small but growing number of investors in the engineering sector. BHP Billiton has a presence in Egypt through its agent Bahna Engineering. It has produced 6 million tonnes of steel and over 60,000 manganese products. Richards Bay Minerals is one of South Africa's leading manufacturers of pig iron. Through its agent, Tequip Engineering, the company commands a 50% market share of this commodity in Egypt. The company's two factories produced over 7,000 tonnes of pig iron in 2004. It expects production to reach 12,000 tonnes because of the improved availability of raw materials both from local sources and from South Africa.

Energy

In the energy sector, South African companies are slowly becoming important players in the market. Since 1992, Sasol has been operating in the Egypt through its agent Ragab Imports & Exports. The company has cited high profit margins as its main reason for investing in the country. Although the quality of its products is of a high standard, the company faces stiff competition from well-established European and local companies.

Reasons for doing business in Egypt and nature of investments

The survey's findings reflect a number of reasons given by South African firms and their agents as to why they chose to invest in Egypt. The majority of the representatives of firms stated that their companies had chosen to do business in Egypt for strategic reasons. At the intersection of Asia, Africa and Europe, Egypt provides South African investors with access to European, African and Middle Eastern markets and products. Egypt's FTAs with the EU, its membership in the Greater Arab Free Trade Area and COMESA, and its trade access to the US offer South African companies unparalleled market opportunities. Interviewees indicated that they are interested in penetrating the North African market because of the immense potential for profitable investment it poses. Egypt is seen as the ideal entry point owing to its well-maintained and strategically located harbours and ports, its highways and roads to neighbouring countries, and its strong air links to the major capitals of all three regions.

The majority of respondents emphasised their satisfaction with the Egyptian government's efforts to liberalise and stabilise the economy. They were pleased with the government's recent steps towards attracting more quality investments. The government's reforms in the legal, monetary, trade, taxation, customs, macroeconomic and financial sectors have helped to make Egypt an inviting market for many international investors.

A number of South African firms expressed their satisfaction with Egypt's competitively priced and reliable supplies of water, power and gas. The country also offers abundant reserves of raw materials. Egypt maintains a large and diversified industrial sector, which offers linkage opportunities. It also offers business services, which include accounting, international law, advertising, consulting and leasing firms, banks, financial services, freight forwarders, shipping companies and insurers. In addition, the country boasts a large telecommunications network that is competitively priced in international terms and reliable.

Furthermore, Egypt's political stability, cultural depth, and well-established institutions have attracted South African as well as other international investors. Located in a region marked by rising religious and political tensions, Egypt has for many years been the safest destination in North Africa for foreign investors. The government is credited with securing peace within its borders in spite of chaotic regional conflicts and the domestic pressure created by Islamic fundamentalists.

The overwhelming reason South African companies gave for investing in Egypt was their appreciation of the country's large and well-educated work force of 21 million, who are easily trainable and, employable at a competitive cost. The country's higher education institutions roll out thousands of graduates, annually creating a large pool of skilled work-seekers. Today, the country is home to 13 state-run public universities and a dozen other local and foreign private fee-charging universities. It also boasted a large number of technical colleges.

Costs of doing business in Egypt

Efficient and transparent institutions as well as good governance are all important inducements to invest in a country. Throughout the 1990s, the Egyptian government was given credit for its macroeconomic stability programmes, which resulted in healthy economic growth and improved standards of living. However, this progress has not coincided with improvements in the country's institutional framework. One important reason why Egypt has been slow to achieve its economic objectives (which are substantial reductions in unemployment, trade imbalances, debt, and the elimination of extreme poverty) is that its institutions are ineffective.

The SAIIA survey, like other economic surveys on the country, found that petty corruption and inefficiency in the taxation system increase the costs of doing business in Egypt. Taxes tend to be very high, and the incentives given tend to offset each other, and in consequence have little incremental effect.[1] A large number of South African and other international investors have also complained about the inefficient tax administration, which operates extremely slowly. Due to endemic corruption in the government's bloated civil service, tax evasion is a regular practice. A stifling bureaucracy further raises the expense of operating a company in Egypt. Foreign investors also continue to face a number of hurdles in the form of bureaucratic procedures, paper work and requirements for licences when they register a new business.

The large civil service is also underpaid and inefficient, and lacks both morale and a strong professional work ethic. It is often said that due to its immense power and longevity, the current administration lacks the will to evolve. The government has been unable to reduce the manpower of its administrative departments to introduce efficiency and accountability. One reason this is difficult is because of the relatively high unemployment rate. In 2003, it stood at 8.7%.

The commercial legal system in the country is described as both expensive and time-consuming. The business community also refers to continued corruption in the legal system which has been exposed in a number of high-level cases. (See section on Corruption below.) This frequently takes the form of irregular payments made by unscrupulous companies to personnel, judges and law experts, In 2001, the World Economic Forum placed the country 30th out of 59 in terms of corruption in its legal system. The court clearance rate was

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[1] Heba Handoussa, *Background Paper Foreign Direct Investment in Egypt*. London: London Business School, 2002.

reported in the mid-1990s as being 36% (as opposed to 80% or 100% in most developed countries), and the average time taken to resolve a case is six years.[2] These disappointing figures have often been attributed to the widespread use of unnecessary witness experts; the limited number of judges; a lack of independence in the court system; the low salaries of court officials and judges; poor court facilities; and lengthy court procedures.

All of the factors mentioned have increased the costs of doing business in Egypt.

Regulatory Cost of Doing Business in Egypt -January 2005			
Economic characteristics		***Entry regulations***	
Income per capita	$1,310	Number of procedures	10
Population	67.6 m	Time (days)	34
		Cost (% of income per capita)	104.9
		Minimum capital (% of income per capita)	739.8
Labour regulations		***Credit markets***	
Difficulty of hiring index	0	Cost to create collateral (% of income per capita)	52.7
Rigidity of hours index	80	Legal rights of borrowers and lenders	1
Difficulty of firing index	80	Credit Information Index	2
Rigidity of employment index	53	Public registry coverage (borrowers/1000 adults)	1.2
Firing costs (weeks)	162	Private bureau coverage (borrowers/1000 adults)	0

2 *Ibid*

Regulatory Cost of Doing Business in Egypt -January 2005 (continued)			
Contract enforcement		***Closing a Business***	
Number of procedures	55	Time (Years)	4
Time (days)	410	Cost (% of estate)	22
Registration of cost (% of debt)	18.4	Recovery rate (cents on the dollar)	16.1
Registration of property		***Protecting investors***	
Number of procedures	7	Disclosure Index	5
Time (days)	193		
Costs (% of property value)	6.1		

Notes

Employment regulations

Indices are scored between 0 and 100. Higher indices represent the extent of regulations in the marketplace. The rigidity of employment index shows the average difficulty of hiring, rigidity of hours and difficulty of firing indices. The cost of firing measures the cost of advance notice requirements, severance payments and penalties in terms of weekly salaries.

Credit markets

The legal rights index is calculated by assigning a value of 1 for a "yes" response to questions regarding each of 10 types of legal rights for borrowers and lenders, and recording the total score across all ten variables. A minimum score of 0 represents weak legal rights and the maximum score of 10 represents strong legal rights.

Bankruptcy

The recovery rate measures the proportion of the insolvency estate recovered by stakeholders, taking into account the time, cost, depreciation of assets and the outcome achieved.

Source: Doing Business in Egypt Country Profile, World Bank, 2006.

Main constraints on doing business in Egypt

South African companies entering Egypt face a number of challenges and problems, in common with other foreign investors. Most of these difficulties stem from cultural differences, language barriers, conflicting business practices and structural problems in the country's business and investment environments. The major business constraints faced by South African companies and their agents are described below.

Limited purchasing power

With an average per capita income of $1,390 in 2004, Egyptians have limited purchasing power. This represents a key business constraint for South African companies opening commercial enterprises in the country. Egypt has traditionally had a price-sensitive market, in which cost takes precedence over quality. South African products tend to be high-quality but more expensive than their Egyptian or other imported products. South African firms have complained that their profit margins have decreased as a result of public reluctance to pay more. For example, one retailer indicated that only 10% of the population can afford to buy their products. However, this is expected to change as more Egyptians become part of the middle class over the next decade and improve their standards of living. South African companies are confident that the size of their market will increase in step with the country's economic growth.

Import restrictions

South African firms and other international investors face stiff restrictions on the importation of several products, especially food and textiles. Food imports have to meet a number of packaging requirements and burdensome labelling procedures. Meat products and poultry must be shipped directly to Egypt from the country of origin, and sealed in packaging that provides printed labels in Arabic both outside and inside the packaging. This requirement discourages South African exporters and South African companies in Egypt from importing food products for their businesses. It also raises the processing and shipping costs. Textiles also face complicated and costly labelling requirements. Imported fabric is subject to stringent quality control examinations by a committee made up of representatives of the domestic weaving and spinning industries.

Rigid customs procedures

A large number of South African companies have complained of the rigid and often complicated customs procedures at the country's ports, despite the government's efforts to reform them. Even though the country announced its adoption of the WTO customs valuation system in July 2001, it has yet to implement them fully because of its complexity. Importers continue to be baffled by the mix of the old reference and new invoice-based price valuation systems, which are applied depending on the type of import. Furthermore, customs procedures have been designed by Egyptian trade and investment authorities to eliminate trading loopholes. This means that they are complicated, inflexible, subjectively applied and unclear. The existence of a number of tariff categories hampers the clearance of commodities. Furthermore, regardless of the compliance record of the manufacturer of the product, the exporter, the importer, the country of origin and the shipper, current Egyptian importing regulations require that every component of a product be inspected. Imported products are also required to conform to Egyptian standards before being put up for sale on the Egyptian market.

Corruption

Corruption exists in Egypt, as in many other emerging markets. It is particularly prevalent among customs and port authorities. Accordingly, the Customs Authority has adopted a tough policy to govern commercial invoicing to stem the tide of under-invoicing by businesses as a means of tax avoidance. Tariff valuations, received annually from foreign producers and distributors, are based on a global price list. When this list is unavailable, custom officials use the highest price applicable in the local market. Customs officials have at times added 10–30% to the invoice value if they suspect under-invoicing. Even though importers can take legal action against the customs authorities, the process of arriving at a judgement can take two weeks or longer. During this time, the importers are solely responsible for paying for storage and administration fees on the disputed shipment, which are kept at the ports. Also because of corrupt practices by local and sometimes international investors, South African companies are obliged to pay higher import fees at ports, which increase the costs of operating in the country further.

Transparency International ranked Egypt 70th out of 133 countries in its 2003 survey of perceptions of corruption. In 2002, high-profile cases of corruption resulted in costly and time-consuming convictions. Several prominent businessmen, bankers, Egypt's former head of Customs Authority, a former Minister of Finance and the former Governor of Giza governate were all indicted on corruption charges. Clearly, the government is beginning to take the issue of corruption seriously.

Bureaucratic red tape

Bureaucratic delays caused by intricate procedural requirements represent another business constraint faced by a large number of South African companies and their agents in Egypt. Although the government has been successful in reforming the country's business climate, red tape continues to strangle further investment. The country's investment community suffers from the multiplicity of regulations and regulatory agencies, arbitrary decision-making, delays in clearing goods through customs, a generally unresponsive commercial court system and high market entry costs. In 2001, The World Economic Forum's annual competitiveness survey ranked Egypt as the worst of 75 countries surveyed in terms of bureaucratic obstructiveness. That sort of environment is extremely detrimental to Egypt's chances of attracting the level of foreign investment it needs.

Lack of transparency in the regulatory system

The lack of consistency and clarity in the country's regulatory system constitutes another problem for a large number of international investors. In spite of the government's constructive steps, such as the creation of the Ministry of Investment and the streamlining of Egyptian investment procedures, foreign investors report that many obstacles continue to plague the system, hindering private sector investment in the country. Customs officials have been criticised for having too much latitude in classifying goods at the port, and, since several ministries have overlapping regulatory authority, import clearance remains time-consuming and complicated. In addition, agents of South African companies have also complained about the poor and subjective quality of control inspections by port authorities. Enforcement of safety and health regulations continues to be uneven and of poor quality.

Some policy recommendations

Representatives of South African firms, other foreign companies, Egyptian officials, trade bureaux and international organisations in Egypt who were interviewed in this survey outlined a number of policy recommendations. These suggest improvements that they would like to see taken into consideration. If adopted, these changes would ensure that Egypt becomes a more investment-friendly destination.

Recommendations to the Egyptian government

Simplify the tax system.

Loopholes in Egypt's hugely complex tax structure plague the system and foster corruption. To help strengthen the tax regime and make it more efficient, South African and other international investors call for a simple flat rate of 15–20% for everyone across the country's class structure, with simple deductions and higher allowance levels for the lower-income groups. Corporations should also pay a flat tax rate, rather than be subjected to the complicated grading of the current tax system.

Reduce bureaucracy

A large number of South African firms have called upon the Egyptian government to reduce its over-large and over-extended bureaucracy of 5.5 million civil servants and make government services more helpful towards local and international investors. Downsizing the civil service would free millions from poorly-paid jobs and allow them to find more lucrative and alternative means of earning a livelihood. This is also expected to reduce the endless red tape obstructing foreign and local investors. However, those interviewed also contend that the Egyptian government can reduce its inefficient bureaucracy only if it can provide sufficient jobs for not only the thousands of individuals who enter the work force every year, but also for former civil servants.

Reduce tariff bands

Interviewees recommended that the Egyptian government take steps to modernise and revamp the existing customs procedures, which at present recognise around 30 tariff bands and hundreds of sub-bands. This has led to corruption and arbitrary discretionary decisions, both of which hamper the ease with which foreign investors can do business in the country. They have suggested that the country applies no more than three tariff bands, which would greatly simplify the work of customs officials.

Empower local governments

There is a need to empower local bodies to help them make decisions on matters falling within their area of jurisdiction. For decades, business, administrative and industry bodies have been concentrated in and around Cairo. The city also houses a third of the country's population. This has stultified development of the human and economic potential of the burdened capital and weakened the local governments in the country's governates. Local government officials tend to wait for feedback from Cairo before making administrative and financial decisions. As a result, the country suffers from unresponsive and inefficient local public administration. South African companies have suggested the decentralisation of government and the payment of better and higher salaries to local officials as possible solutions to the current problem. Decentralisation would help to render local governments more accountable to their constituents, which in time would make them more efficient. This would benefit the local population as well as those foreign investors who do business in those areas.

Removal of restrictions on foreign investment

A number of South African firms have recommended the removal of current restrictions on foreign investment in a number of areas. Under Law 15 of 1963, foreign investors are forbidden to own agricultural land (defined as traditional agricultural land in the Nile Valley, Oases and Nile Delta). In addition, international investors are prohibited from becoming commercial agents and from engaging in importation for resale activities. Lastly, they are prevented from engaging in investment activities in the Sinai; from manufacturing or selling tobacco, arms, or industries producing related products in the whole country.

Issuance of new commercial banking licence

Foreign investors have called upon the government to issue new commercial banking licences. This has not happened in almost 20 years. At the moment, if a foreign bank wishes to operate in the country (except as a representative office), it has to purchase an existing bank. The same situation applies to insurance companies.

Improve dispute settlement mechanisms

Despite extensive government reforms, dispute settlement remains a significant problem in the country. Conflicts of interest involving South African and other international investors do occur. South African investors have found that the resolution of cases tends to involve lengthy and expensive court proceedings. They therefore suggest that foreign companies insert clauses in their commercial agreements specifying that all disputes that arise should be subject to binding international arbitration, prior to commencing any investment in the country.

Removal of non-tariff barriers and import restrictions

South African investors would like to see a further easing of import restrictions. They contend that the WTO customs valuation system has not been fully implemented, even though it was introduced four years ago. As a result, importers are faced with a mix of old and new invoice base reference/price valuations. In addition, foreign investors are faced with stiff mandatory quality-control standards that make importing certain products very difficult. Multiple government agencies scrutinise imported products, especially agricultural products, extremely closely.

Recommendations to the South African government

Policy recommendations directed towards the South African government suggested means to promote and enhance trade and investment opportunities between the two countries.

Easing of visa requirements

A number of Egyptian government officials, business leaders and investment bodies have called for the lifting of visa requirements for Egyptians travelling to South Africa for both business and leisure purposes. At the moment, Egyptians wising to make trips to investigate investment opportunities face a time-consuming and exhaustive visa application process.

Promotion of Egypt as a tourist and investment-friendly destination

Egyptian government officials and members of the private sector have requested South African tour operators and travel agencies to take more aggressive measures to promote Egypt as an attractive destination for South African tourists and investors alike. They contend that there has been no better time to visit and invest in Egypt, given the extensive reforms undertaken by the government to lure both investors and tourists to Egypt.

Ratifying a free trade agreement

There was a strong call by both South African companies and Egyptian government officials and business people for a FTA between South Africa and Egypt, because it is likely to greatly improve trade and investment links between the two countries. The South African government should do its part to finalise the talks, which have been ongoing for a number of years. The country has been accused of dragging its feet in the negotiations with the Egyptian government.

Promotion of Egyptian investment in South Africa

Interviewees also believed that the South African investment authority should help promote Egyptian products and investments in the country. Egyptian businesses would like South Africa to eliminate trade and investment barriers and provide special incentives to them. By the same token, South African officials have made similar calls for the elimination of trade and investment barriers in Egypt, to help promote South African products in that country. At present, bilateral trade and investment from both countries is minimal, and there is little prospect of the situation changing in the near future.

The need to become acquainted with Egyptian business practice

Those respondents representing Egyptian interests recommend that South African companies should be encouraged to acquaint themselves with Egyptian business practices and cultural norms. South Africans entering the Egyptian market face a number of challenges stemming from differences in business and religious practice, cultural dissimilarities, and language barriers. Interviewees wish to see the South African government do more to support and encourage firms to acquaint themselves with the Egyptian market before starting businesses in the country.

Lessons from Egypt

Several lessons for current and prospective investors and the governments of both countries can be drawn from the experience of South African companies and their agents operating in Egypt.

Firstly, since 1991, President Mubarak's government has committed itself to implementing much-needed economic and political reforms and a stabilisation programme, which were supported by the Paris Club, the IMF and the World Bank. The changes included the removal of certain price controls, a reduction in food subsidies, standardisation of the exchange rate, interest-rate liberalisation, reform of the public and financial sectors and foreign trade liberalisation.

The reforms have resulted in economic growth of about 4.4% over the past eight years. This has resonated well with both foreign and Egyptian investors, who express increasing confidence in the country's economic growth and political stability over the medium to long term. The country is seen as a lucrative investment destination because of the recovery of its tourism industry, its new natural gas discoveries and the opening up of fresh investment opportunities within the agricultural, services, manufacturing, engineering and textile industries.

Secondly, Egypt's major strides in rebuilding and consolidating its infrastructure, reducing the time and costs involved in opening new commercial companies, revamping conditions for the operation and exit of business, streamlining procedures, dismantling bureaucratic barriers, privatising hundreds of inefficient state-owned enterprises, lifting import restrictions and introducing investment incentives have all helped to attract a large volume of FDI into the country over the past decade. The country has been consistently placed among Africa's top five recipients of FDI. South African investors have indicated that they find the country a promising market in which to do business, despite the stiff competition they face from US and European competitors.

Thirdly, Egypt's electoral reforms, which include the holding of multiparty presidential elections for the first time in September 2005, have shown the country's commitment to political reform as part of its greater efforts towards democratisation. This has helped strengthen Egypt's international standing. It is seen as a leading country in the MENA region that is committed to multiparty democracy and the rule of law. However, some reservations are also expressed. Some international observers have argued that Egypt's electoral reforms are a result of pressure for regime change in the Middle East from the Bush administration, and demands from Europe for greater political accountability. Both also coincided with growing domestic calls to reform the political system. This reasoning implies that political reform have been forced on the government and do not necessarily mean a transformation of attitude.

Fourthly, it is imperative that prospective and current South African investors are well acquainted with Egyptian business practices, religious and linguistic differences and conflicting cultural norms and traditions. South African companies do not have much experience of doing business in North Africa, a region traditionally dominated by Arab, European and American firms. Investors from South Africa should therefore be encouraged to learn Arabic and inform themselves about the country's practices and cultural norms to maximise their chances of success. It is also recommended that they should acquire local partners to help them become familiar with the Egyptian market.

Fifthly, although the Egyptian government has been credited with a wide range of reforms since the early 1990s, multiple business constraints continue to confront South African and other foreign investors in Egypt. These include bureaucratic red tape, a multiplicity of regulations and regulatory agencies, delays in clearing goods through customs, arbitrary decision-making by officials, an unresponsive court system, import restrictions and corruption. The Egyptian government needs to take further steps to reduce the extent of these impediments to foreign investors over the short to medium terms.

Conclusion

Situated in a region characterised by ongoing political conflict, religious turmoil, ethnic tensions and slow economic growth, Egypt is regarded as a politically stable country with one of the most integrated and open markets in the Middle East and Africa. It has shifted away from the nationalisation of privately-owned enterprises and the socialist-based economic policies, which restricted economic growth from the 1950s to the mid-1970s. It has now embraced a free market economy and private sector development. Today, the private sector dominates over 70% of economic activity in the country.

North Africa is a region that has not traditionally attracted many South African investments. However, South Africans have started to realise that immense potential that lies in countries such as Egypt and Morocco. Investors from this country have taken note of Egypt's improving economic conditions and investment opportunities. Most of those interviewed stated that they would like to expand their operations in the near future, as they become more familiar with, and confident about, operating in this vastly different Middle Eastern market. They also expressed the intention of using the country as an entry point to the rest of the Middle East and North Africa.

Officials from both governments have realised that bilateral relations are poised to improve as both countries move away from a competitive relationship to a complementary one. Indeed, closer co-operation between the South African and the Egyptian economies is expected to promote cross-regional trade and investment, a practical solution to the continent's increased marginalisation in global trade trends, and its decreased international FDI inflows. There has never been a better time to harness the technological innovations, expertise, trade linkages and historical competitive advantages that exist in both economies.

Appendix A

Social Development Indicators			
	1999	*2002*	*2003*
Population, total	62.8 million	66.4 million	67.6 million
Population growth (annual %)	1.9	1.8	1.8
National poverty rate (% of population)	-	16.7%	-
Aid per capita (current US$)	25.2	18.7	13.2
Life expectancy (years)	-	68.9	69.1
Fertility rate (births per woman)	-	3.2	3.1
Infant mortality rate (per 1,000 live births)	-	-	33.0
Under 5 mortality rate (per 1,000 live births)	-	-	39.0
Births attended by skilled health staff (% of total)			69.0
Child immunisation, measles (% of under 12 months)	96.0	97.0	98.0
Prevalence of HIV, total (% of population aged 15-49)	-	-	0.1%
Primary school completion rate, total (% age group)	103.0	89.0	91.0

Social Development Indicators (continued)			
	1999	*2002*	*2003*
Net primary school enrolment (% relevant age group)	89.9	-	-
Net secondary school enrolment (% relevant age group)	78.8	-	-
Surface area (sq km)	1.0 million	1.0 million	1.0 million
Access to improved water sources (% of total population)	-	98.0	-
Access to improved sanitation (% of urban pop)	-	84.0	-
Electricity use per capita (kWh)	914.9	1,072.5	-
Fixed lines and mobile telephones (per 1,000 people)	82.8	177.2	211.7
Telephone average cost of local call ($ per three minutes)	0.0	0.0	0.0
Personal computers (per 1,000 people)	12.0	16.6	21.9
Internet users (per 1,000 people)	3.2	-	39.3
Paved roads (% of total)	78.1	-	-
Source: World Development Indicators database, April 2005.			

Appendix B

Bilateral Agreements between South Africa and Egypt

Sixth Session Of the JBC: Pretoria, RSA (2003)

- Co-operation Agreement between the Government of the Arab Republic of Egypt as represented by the Ministry of Foreign Affairs and the Government of the Republic of South Africa.
- Protocol between the Government of the Arab Republic of Egypt through the Ministry of Foreign Affairs and the Government of the Republic of South Africa on Co-operation between their respective Diplomatic Training Institutes.
- Memorandum of Understanding between the South African Broadcasting Corporation (SABC) and the Egyptian Television and Radio Union.

Fifth Session of the JBC: Cairo, Egypt (2001)

- Extradition Agreement.
- Mutual Legal Assistance in Criminal Matters.
- Agreement on Co-operation in the field of Sport.

Fourth Session of the JBC: Pretoria, RSA (2000)

- Police Co-operation Agreement.
- Agreement on Co-operation in Phytosanitary Measures.
- Agreement on Co-operation in Animal and Veterinary Public Health.
- Agreement on Co-operation in the Electricity and Energy fields.

- Agreement on a Memorandum of Understanding between the Johannesburg Stock Exchange (JSE) and the Cairo and Alexandria Stock Exchange.
- Agreement on a Memorandum of Understanding between the Africa Institute and the Institute of African Studies of the University of Cairo.
- Agreement on a Memorandum of Understanding between the Johannesburg Metropolitan Chamber of Commerce and Industry (JMCCI) and the Cairo Chamber of Commerce.
- Agreement on a Memorandum of Understanding between the National African Federated Chamber of Commerce (NAFCOC) and the Association of National Chambers of Commerce of Egypt.
- Agreement on a Memorandum of Understanding between the Afrikaanse Handels Instituut (AHI) and the Federation of Egyptian Chambers of Commerce.
- Agreement on a Memorandum of Understanding between the South African Chamber of Commerce (SACOB) and the Federation of Egyptian Chambers of Commerce.

Third Session of the JBC: Pretoria, RSA (1997)

- Agreement on the avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income.
- Agreement on Co-operation in the field of Tourism.
- Agreement on Scientific and Technological Co-operation.
- Air Service Agreement.
- Agreement on Co-operation in the fields of Arts and Culture.

Inaugural Session of the JBC: Cairo, Egypt (1995)

- Agreement on the Establishment of a Joint Commission of Co-operation.
- Memorandum of Understanding on Energy Co-operation.
- Memorandum of Understanding on Scientific and Technical Co-operation in Geosciences.

Preceding JBC Framework

- Statement of Mutual Co-operation between the Johannesburg Chamber of Commerce and Industry (JCCI) and the Chamber of Commerce of Alexandria (1994).

Pending Agreements

- Memorandum of Understanding on Standards Unification.
- Agreement between the Agricultural Research Council and the Egyptian Ministry of Agriculture.
- Free Trade Agreement.
- Proposed upgrading of Declaration of Intent in the field of Transport to an Agreement.
- Twinning Agreement between the Metropolitan Council of Johannesburg and the City of Cairo (at the investigative stage).

Appendix C

Ethnic and Religious Groups in Egypt

Egypt's population is relatively homogeneous culturally and linguistically, despite its fusion of many ethnic groups and countless races over many centuries. Egyptians include Berbers, Arabs, Persians, Africans, Romans, Greeks and Turks. However, there are several groups that deserve attention as being particularly distinctive. One such group is the Fellahin. They are peasant farmers living in the Delta region and on the Nile River. They provide the backbone of Egypt's agricultural industry, and have for centuries formed the majority of the population. Another important group in the country is the Nubians, who inhabit Upper Egypt around Lake Nasser. Even though they are Muslim and speak Arabic, they have unique traits that set them apart from other groups in the country. Their ancestry link them to the people of Sub-Saharan Africa, especially the Sudanese.

The Bedouins form another important subgroup. They are nomadic Arabs who represent less than 2% of the population. Although they can be found in the Nile Valley, they tend to live in the desert. Again, an estimated 6,000 Egyptians of Berber origin inhabit the Western Desert along the Libyan–Egyptian border. They are related to the Berber communities that roam the North African region. Several hundred thousand Europeans, principally Italians, Greeks, French, Turks and Armenians, continue to live in the country. They once dominated the commerce of Egypt, but their numbers dwindled during the mass emigration that followed the 1952 revolution.

Apart from ethnic and cultural groups, Egypt is divided along religious lines. Islam is the official religion of Egypt. Close to 90% of the population are Sunni Muslims. The country is one of Sunni Islam's most important intellectual centres. It is home to the world's oldest university, Al-Azhar, which is considered by Sunni Muslims as having the most prestigious faculty of Islamic law. Al Azhar has produced the most respected Islamic religious scholars worldwide.

Coptic Christians constitute the most influential and largest religious minority in Egypt. They are a cultural remnant of the Christians who did not convert to Islam in the 14th century, when the Muslim invasion of Egypt took place. Today, Coptic Christians form close to 10% of the country's population. This is in addition to another 1.5 million Coptic emigrants who currently live in other countries, principally North America, Australia, Europe and in many other parts of Africa.[1]

Although they are not ethnically distinct from the rest of the population, Coptic Christians often complain that they are marginalised in key sectors of Egyptian society such as the police force, army and security services. Tensions have escalated between the Coptic Christians and Muslims since the early 1990s owing to the increase of violence and vandalism against them following the rise of Muslim fundamentalism in the country.

Other Christian groups that are represented in Egypt include one million Greek and Armenian Orthodox Christians, Roman Catholics and several Protestant groups. These groups thrived during the colonial era and made considerable contributions to Egyptian society. However, because many of these emigrated during the presidency of Nasser, their presence and influence in Egypt waned. There is also a very discreet and small Jewish community, which is dwindling rapidly as many leave the country.

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1 See *http://www.adherents/com/Na/Na_251.html.*

Appendix D

Guarantees and Incentives under Law 8/1997:

1. Granted guarantees

- A project may be 100% owned by foreigners.
- Guarantees against nationalisation and expropriation. Seizure of a project's assets can be effected only through a court ruling.
- Output is not subject to government price controls.
- Companies are allowed to repatriate their capital and profits overseas.
- The majority of the Board of Directors may be non-Egyptian.
- Egyptian employees can be freely hired at normal market rates.
- Foreign experts can be hired, and their salaries are exempt from income tax if their stay in Egypt does not exceed one year.
- Exemptions from regulations relating to worker participation in management are permitted.
- Imported capital assets and construction materials required to establish an approved project are subject to a unified import duty rate of 5%.

2. Tax exemptions

- Tax holidays are granted at the end of the first fiscal year from the date of commencing activities.
- A five-year tax exemption is allowed if the project is located in the Old Valley.
- A ten-year exemption is granted if the project is located in the industrial area or the new communities or remote areas.
- A twenty-year exemption applies if the project is located in the New Valley (Toshka, East Owinat, Paris, Alkharja, East Farafra, Siwa).

3. Exemption of contracts

- All contracts related to the company's activities such as articles of origin, the fiscal stamps and authentication fees are exempted for three years from the date on which such companies are entered in the Commercial Register.

4. Exemption from corporate tax

- Egyptian joint stock companies whose shares are registered with the Egyptian Stock Exchange are allowed an exemption from corporate tax on their profits equal to Central Bank of Egypt's lending or discount rate.

5. Exemption from interest on bonds

- Interest from bonds issued by joint-stock companies is exempt from the tax on income from moveable capital, provided that the bonds are offered for public subscription and registered at the Egyptian Stock Exchange.

Law 8/1997 also established a One-Stop Shop for investment opportunities located at the General Authority for Investment and Free Zones (GAFI). The aim was to simplify approval, registration, licensing and certification for new projects.

Guarantees and Incentives under Law 3/1998, which covers investors in any sector not covered by Law 8 of 1997, including shareholders, joint stock, and limited liability companies and representative and branch offices.

- Automatic registration is given to a company upon presentation of an application to the Companies Department at the Ministry of Foreign Trade. The acquisition of legal status should take not more than 15 days after the appearance of the company's name in the Commercial Register.
- Representation on the Board of Directors can comprise 100% foreign directors.

Source: General Authority for Investment and Free Zones, 2005

Appendix E

There are two types of free zones in Egypt in which a project can be established by a foreign investor.

A: Public-Free Zones:

In Egypt, there are seven public free zones, which are provided with basic infrastructure and utilities. A Public Free Zone is managed by a board of directors, and also has an administrative organ. The function of the latter is to provide technical, economic and legal advice and offer all facilities needed to establish projects and issue the required licences.

Land offered in exchange for rent is priced as follows:

- \$3.5 per m^2 superscript annually for industrial projects.
- \$7.0 per m^2 annually for other projects (storage & services).
- A reduction of 50% on these rates is granted to Ismailia Public Free Zone Projects.

B: Private Free Zones:

GAFI has issued a decree concerning the establishment of private free zones, each of which shall be limited to a single project if its nature so necessitates. The location of private free zone must be chosen according to the following criteria:

1) Its site must enhance its economic status e.g., it should be near raw material sources or on a site appropriate to the nature of its activity (navigation & maritime transport projects, insurance companies, cement silos and so on).
2) It should contribute to the establishment of new communities, according to the current state policy.

3) The project must observe all standards and regulations pertaining to the protection of the environment. In this case, the investor determines whether the site of the private free zone can be owned or rented. GAFI undertakes to help investors to obtain all necessary infrastructure and utilities needed.

What Qualifies as a Private Free Zone:

Priority is given to export-oriented industrial projects that:

- generate high value added to the domestic production factors;
- apply modern and advanced technology; and
- create more job opportunities.

The Transformation of Projects to Private Free Zones:

- GAFI may approve changing the status of an inland project to that of a Private Free Zone in accordance with the following parameters:
- The project must already be in operation; and
- committed to exporting not less than 50% of its production.
- The project should be in accordance with the specifications for private free zones.

Major Free Zones

- **Alexandria Public Free Zone in Ameriyah**

  Alexandria is renowned as Egypt's major port on the Mediterranean Sea. The Alexandria public free zone is located in Ameriyah on the Alexandria–Cairo desert road, and covers an area of 1,353 feddans. Projects already established in these public free zones are in the fields of manufacturing, storage and services.

- **Nasr City Public Free Zone**

  This zone is located in Cairo, the capital and major city in Egypt, and is situated in close proximity to Cairo international airport. This facilitates linkages with foreign markets while simultaneously providing easy access to skilled labour from Cairo. Its area comprises of 168 feddans in Nasr City Free Zone. Projects underway include manufacturing, storage and services.

- **Suez Public Free Zone**

  Suez is a city in an important strategic position because it is a commercial port overlooking the north of the Gulf of Suez, at the point where it meets the Suez Canal. Suez is considered to be the canal's southern outlet. It also represents a point of connection between Egypt and those Arab and African countries adjacent to the Red Sea, the Indian Ocean, the Gulf region and countries of the Far East. The total area of the Suez Governorate is 25000 kms. The city possesses a large supply of qualified manpower. It is also equipped with the latest technology.

  Suez has five important seaports: Adabia, oil Basin, Alataka fishing port, and Al Sukhna port. The province is also intersected by a number of major motorways: the Suez en Cairo; the Suez en Ismalia en Port Said; the Suez en Hurgada en Red Sea; Suez en North of Sinai; and the Suez en the South of Sinai.

There are two main rail transport lines in Suez, those between Suez and Cairo, and between Suez and Ismalia. Branch railways to Aladabia, Ein El Sukhna and Oil Basin ports also exist. Other railway branch lines serve Sadat quarry and oil refineries, and a fertilizers company. There are also three depots to service movements of imported and exported goods, and another for oil tanks.

Suez has two Public Free Zones:		
Zone	***Area/Space***	***Position***
Port Tawfeq Public Free Zone	SQM 75660	Adjacent to Port Tawfeq Port
Free Zone Adabia Public	SQM 247208	Approximately 5 km away from Adabia port, located in the Gulf of Suez

- **Ismailia Public Free Zone:**

Ismailia is located midway between Port Said port on the Mediterranean Sea and the Suez port on the Red Sea. Its public free zone is situated in the Ismailia City suburbs, on the main (Cairo to Port-Said road). It comprises 800 feddans and serves several enterprises working in manufacturing, storage and services activities.

- **Damietta Public Free Zone:**

This zone is located on the edge of the Mediterranean Sea, adjacent to Damietta port, on the northern borders east of the Delta. It lies 55km west of Port Said port (the northern gate to the Suez Canal), which is considered the most strategic marine path in the world.

Rents in Damietta free zone are 50% of those in other free zones, so the annual cost per square metres is $1.75 for industrial projects, and $3.50 for storage and services projects. The entire basic infrastructure required already exists inside the zone. The gate shared between the zone and the port assists the transfer of goods. Apart from the proximity between the port and the zone, all the customs procedures for exports and imports can be carried out inside the zone.

- **Port Said Public Free Zone:**

  This zone is adjacent to the Port Said port, which lies on the Mediterranean Coast. It is the hub for trade between the Middle East, Europe and the Far East. The zone is also close to Shark El Tafriaa port. The extent of the Port Said public free zone is 729 square metres.

- **Media Production Free Zone:**

  This free zone is used for the following kinds of investments:

  - radio, television and data space broadcasting via satellites;
  - radio, television & information space channels;
  - print houses;
  - radio, television & cinema production works, and all types of advertising & artistic production;
  - the production, fabrication and assembling of materials & equipment needed for the above;
  - advertising, propaganda and public relations service companies;
  - organise permanent exhibitions for local and international companies that produce media and telecommunications equipment;
  - hotels, tourist facilities and shopping malls to serve the free zone;
  - banking services;

- importation and storage of machines, equipment, instruments, tools, operating requirements and spare parts; and
- the production of programmes, computer systems and electronic content, to software designs.

The regulations that cover enterprises in this Free Zone

Companies licensed to work in it should abide by the media covenant of honor; that no licensed party give up its licence to any other, without the permission of the appropriate authority; it should be taken into consideration that all distribution and ciphering of broadcasting programmes and services should be performed only by the companies licensed to do so; and that the suitability and sufficiency of the capital required for a new project should be established before an application to establish it is made.

Source: General Authority For Investment and Free Zones, 2005

Appendix F

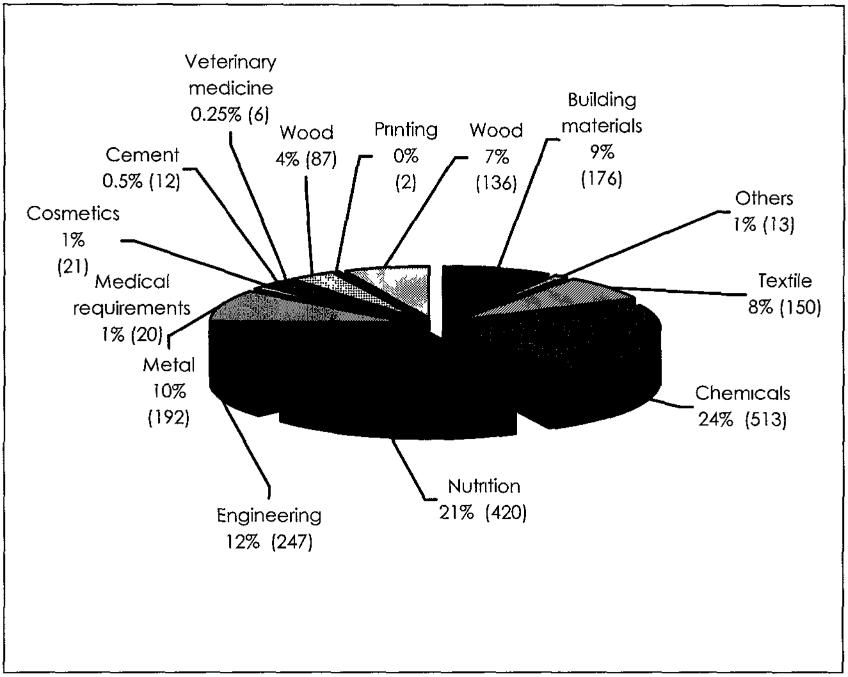
Industrial Parks

- There are 40 industrial zones located within Egypt's 19 governorates. Projects established according to investment law within the industrial zones enjoy a tax holiday of 10 years, which can be extended to 20 years for projects in the New Valley industrial zones.
- The total area of all the industrial zones is nearly 162 million square metres.
- In Upper Egypt, land is allocated freely to projects provided they are carried out according to the provisions of presidential decree number 158 of 2001.
- On 1 January 2004, the total number of approved projects was 1995. Of these 848 had already started production.

The main industrial parks and their locations are as follows:

- Pharmaceuticals and clothes (the Assiut, Suhag, Qena governorates)
- Petro- chemicals and tyres (the El-Nahda–Alex governorate)
- Household Electric Appliances (Menoufiya governorate)
- Ceramics and sanitary wares (the Fayum governorate)
- Petrochemicals (the Port Said governorate)
- Cement (the Bani Suef governorate)

Distribution of projects according to Sector



List of Industrial Zones			
No.	***Industrial Zone***	***Governate***	***Area/feddan***
1	Beir El-Abd	North Sinai	238
2	El-Nahda	Alexandria	4611
3	Sepco	Alexandria	160
4	El-agamy kebly betash	Alexandria	2.98
5	Industrial Zone South Port Saied	Port Said	797.43
6	El-Qantra-Sharq	Ismailia	910
7	Belbeis El-Asher	Sharkia	270
8	Balteem	Kafr El Sheikh	114
9	Motobuss	Kafr El Sheikh	1160
10	South/West Gamasa	El-Dakahlia	727
11	El-Asafra	El-Dakahlia	50
12	Wadi El-Natron	El-Baheira	357
13	Rosetta	El-Baheira	200

List of Industrial Zones (continued)			
No.	***Industrial Zone***	***Governate***	***Area/feddan***
14	26 km Matrouh/Alex Road	Matrouk	803
15	Mubarak	Menofiya	307
16	Abu-za'abal/Elkhanka	Qualyubia	137
17	Kom-Aushiem	El-Fayum	1102
18	Kouta	El-Fayum	2000
19	Biad el-Arab	Bani Suef	750
20	KomAbuRadi	Bani Suef	655
21	1/31	Bani Suef	6,428.57
22	2/31	Bani Suef	3,571.43
23	3/31	Bani Suef	2,976.19
24	4/31	Bani Suef	2,857.14
25	El-Metahra	El-Minya	1516
26	Abnub	Assuit	614
27	El-Safa	Assuit	700
28	Abu Tig	Assuit	35
29	Sahel Seliem	Assuit	48
30	Dayrut Dashlout	Assuit	108
31	El-Badary	Assuit	40
32	El Kawther	Suhag	500
33	Ahaywa-Shark	Suhag	250
34	West Girga	Suhag	1086
35	West Tahta	Suhag	912
36	Qift	Qena	570
37	Hew NewNaga	Qena	500
38	El Shallal	Aswan	222.6
39	Kharga	New Valley	181
40	Motel Dakhala	New Valley	71
	TOTAL		38,538.34
Source: General Authority for Investment and Free Zones, 2005			

Appendix G

Setting up an Investment

Since April 2002, GAFI has been responsible for establishing an Investment Service pool (ISP) with a "One-Stop Shop" approach to investment applications and approvals. Branches to supplement the main office in Cairo are being established in the Alexandria, Ismailia and Assuit governorates, and are to be followed by other outlets.

GAFI is the sole Egyptian government authority concerned with regulating and facilitating investment. Therefore prospective investors need only to deal with this organisation, which provides a complete range of services from background information, feasibility studies and advice on company registration, site location and partner identification to the drawing up of contracts and application for licences. GAFI's services are provided at no cost to the investor.

Procedure for setting up of a project in a Free Zone

1) The prospective investor draws up an application/notification form, whether this is a new project or an already-existing one obtained from the public free zone concerned or the Authority head office.
2) The investor fills in that application/notification form, providing detailed information relevant to the project, and submits it to the zone concerned or to the authority.
3) The form is examined by the Permanent Technical Committee for Free Zone Affairs, which issues an appropriate preliminary recommendation.

4) If an approved-in-principal recommendation is issued, the investors is able to take over the required area inside the Public Free Zone, after settlement of rent. In the case of a new project, the investor submits also the documents for the leasing, acquisition or allocation of land on which the project is to be established.
5) A Committee is formed to examine whether the site meets the requirement of the public free zone.
6) A memorandum concerning the project is submitted to the board of directors of the public free zone or the Chairman of GAFI for final approval.
7) An approved project will be entitled to become legal.
8) The investor appoints a legal representative for the project and his duly authorised proxy in the event of his absence.
9) The investor submits a final letter of guarantee in favour of GAFI.

Source: Egypt Ministry of Investment, General Authority for Investment and Free Zones, 2005

Appendix H

Origin of Imports, 1995-2003					
	1995	***2000***	***2001***	***2002***	***2003***
World $ million)	11,739.0	14,009.7	12,755.7	12,552.5	10,892.7
	(%)				
America	**22.6**	**18.8**	**19.6**	**19.7**	**18.8**
US	18.8	15.0	14.4	13.5	11.7
Canada	0.6	0.6	0.9	0.5	0.4
Other America	3.2	3.2	4.3	5.6	6.8
Brazil	*1 6*	*0 8*	*2 0*	*2 9*	*3 4*
Argentina	*1 0*	*1 7*	*2 0*	*2 4*	*3 1*
Europe	51.4	45.6	40.6	40.2	39.1
EU (15)	38.9	35.0	29.5	28.0	26.9
Germany	*8 9*	*8 8*	*7 5*	*6 6*	*6 6*
Italy	*6 2*	*6 7*	*5 0*	*5 0*	*4 9*
France	*5 8*	*4 1*	*4 0*	*4 3*	*4 1*
UK	*3 2*	*2 6*	*2 4*	*2 5*	*2 4*
Netherlands	*3 2*	*2 5*	*2 0*	*1 8*	*1 6*
Sweden	*2 2*	*1 6*	*1 5*	*1 2*	*1 2*
EFTA	2.8	1.8	2.0	1.7	1.5
Switzerland	*2 7*	*1 5*	*1 8*	*1 5*	*1 3*
Eastern Europe	7.2	6.7	6.1	7.6	8.4
Former USSR	*4 5*	*3 8*	*4 2*	*5 6*	*5 7*
Russian Federation	*3 5*	*2 2*	*2 3*	*3 4*	*3 4*
Ukraine	*0 9*	*1 4*	*1 7*	*1 9*	*2 0*
Other Europe	2.6	2.1	3.0	2.9	2.3
Turkey	*1 5*	*1 4*	*1 9*	*1 8*	*1 6*
Asia	**17.3**	**25.3**	**24.1**	**21.2**	**20.0**
Middle East	3.1	9.6	8.0	4.7	5.0
Saudi Arabia	*2 1*	*7 4*	*5 3*	*2 8*	*2 3*
East Asia	12.3	13.8	13.7	13.3	13.5
China	*2 5*	*4 6*	*4 0*	*4 5*	*4 9*
Japan	*2 7*	*3 1*	*2 9*	*2 7*	*2 5*
S Korea	*1 9*	*1 8*	*2 1*	*1 7*	*1 8*
South Asia	1.9	1.9	2.4	3.1	1.5

Origin of Imports, 1995–2003 (continued)					
	1995	***2000***	***2001***	***2002***	***2003***
			(%)		
India	*1 4*	*1 6*	*2 2*	*2 9*	*1 3*
Oceania	**1.3**	**3.7**	**4.5**	**4.3**	**2.3**
Australia	*1 1*	*3 4*	*4 1*	*3 9*	*1 9*
Africa	**2.4**	**2.2**	**2.7**	**4.8**	**5.6**
Sub-Saharan Africa	1.2	1.4	2.0	2.5	2.0
Other Africa	1.2	0.9	0.8	2.3	3.6
Algeria	*0 1*	*0 2*	*0 0*	*1 7*	*2 9*
Other	**5.0**	**4.4**	**6.8**	**9.9**	**14.1**
Free Zones	4.9	4.4	6.8	9.9	14.0
EU (25)	40.2	36.6	31.1	29.8	29.0
Source Egypt Trade Policy Review, WTO, 2005					

Destination of Exports, 1995–2003					
	1995	***2000***	***2001***	***2002***	***2003***
World ($ million)	3,44.1	4,713.0	4,164.9	4,691.6	6,159.2
			(%)		
America	**15.8**	**9.6**	**9.4**	**8.9**	**9.1**
US	15.2	8.5	8.3	8.3	8.5
Canada	0.2	0.2	0.2	0.2	0.2
Other America	0.4	0.8	0.8	0.4	0.5
Europe	**52.3**	**43.0**	**36.0**	**32.6**	**38.8**
EU (original 15)	45.8	40.2	31.4	28.1	32.9
Italy	*13 3*	*16 3*	*9 1*	*10 7*	*12 3*
Spain	*4 6*	*3 1*	*3 7*	*3 3*	*4 7*
Netherlands	*4 8*	*6 4*	*6 7*	*4 3*	*3 7*
France	*4 2*	*5 9*	*3 9*	*2 5*	*2 7*
UK	*4 1*	*2 5*	*2 4*	*1 7*	*2 4*
Greece	*4 0*	*1 5*	*1 1*	*1 7*	*2 2*
Germany	*6 0*	*2 6*	*2 7*	*2 0*	*2 0*
Belgium-Luxembourg	*3 2*	*0 8*	*1 0*	*1 1*	*1 5*
EFTA	0.6	0.2	0.5	1.1	1.3

Destination of Exports, 1995-2003, (continued)					
	1995	***2000***	***2001***	***2002***	***2003***
	%				
Eastern Europe	2.8	0.7	1.4	1.4	1.6
Former USSR	*1 1*	*0 2*	*0 5*	*0 7*	*0 9*
Other Europe	3.2	2.0	2.6	2.1	3.1
Turkey	*2 4*	*1 8*	*1 8*	*1 7*	*2 3*
Asia	**24.9**	**27.0**	**30.0**	**33.8**	**28.4**
Middle East	14.9	15.4	16.4	13.6	12.0
Saudi Arabia	*3 3*	*3 0*	*3 5*	*2 9*	*3 0*
United Arab Emirates	*1 2*	*1 3*	*1 4*	*1 7*	*1 9*
Lebanon	*1 3*	*1 3*	*1 3*	*1 6*	*1 7*
Jordan	*0 9*	*0 4*	*0 6*	*2 1*	*1 6*
East Asia	7.4	7.9	7.0	10.4	8.0
China	*0 2*	*0 8*	*1 0*	*4 7*	*1 6*
Japan	*1 3*	*2 0*	*1 6*	*1 5*	*1 6*
South Korea	*1 5*	*1 2*	*1 2*	*1 0*	*1 6*
South Asia	2.6	3.7	6.6	9.8	8.4
India	*1 5*	*3 3*	*6 1*	*8 8*	*7 5*
Oceania	**0.0**	**0.1**	**0.0**	**0.1**	**0.1**
Africa	**5.2**	**4.2**	**5.2**	**5.5**	**8.2**
Sub-Saharan Africa	1.4	1.6	2.5	2.4	3.6
Other Africa	3.8	2.6	2.6	3.1	4.6
Libya	*1 5*	*1 3*	*1 1*	*1 5*	*1 8*
Other	**1.8**	**16.1**	**19.3**	**19.1**	**15.5**
Free zones	0.2	2.8	7.0	9.2	6.2
EU (25 countries)	46.8	40.6	32.3	28.7	34.0
Source Egypt Trade Policy Review, WTO, 2005					

Appendix I

South African Imports from Egypt by Commodity			
Commodity	**Value of Goods in 2001 (R000)**	**Value of Goods in 2002 (R000)**	**Value of Goods Jan–April 2003 (R000)**
Machinery & mechanical equipment	23,447	27,732	5,704
Articles of stone & plaster	6,787	11,273	2,627
Mineral products	14,954	0	1,574
Vegetable products	1,994	3,873	1,252
Optical & photographic items	991	5,074	1,141
Textiles & fabric articles	3,460	3,400	627
Chemical products	11,639	35,797	571
Miscellaneous manufactured goods	1,430	1,674	461
Base metals & metal articles	2,132	4,402	366
Vehicles, aircraft, vessels	204	270	313
Prepared foodstuffs: beverages	329	1,271	89
Wood pulp or other fibres	496	1,459	66
Other unclassified goods	99	615	56
Raw hides & skins, leather	129	132	19
Natural or cultured pearls	2	8	2

South African Imports from Egypt by Commodity (continued)			
Commodity	**Value of Goods in 2001 (R000)**	**Value of Goods in 2002 (R000)**	**Value of Goods Jan–April 2003 (R000)**
Wood & wooden articles	13	20	2
Footwear, headgear, umbrellas	103	0	1
TOTALS	**72,800**	**103,178**	**15,847**
Source: South African Department of Trade and Industry, 2005.			

South African Exports to Egypt by Commodity			
Commodity	**Value of Goods in 2001 (R000)**	**Value of Goods in 2002 (R000)**	**Value of Goods Jan–April 2003 (R000)**
Machinery & mechanical equipment	56,196	43,732	56,818
Chemical products	30 956	70,822	22,844
Plastics & plastic articles	5,173	12,087	2,490
Prepared foodstuffs; beverages	105,056	9,016	2,261
Optical, photographic items	3,898	4,460	1,864
Base metals & metal articles	39,714	29,559	728
Vegetable products	2,274	4,039	577
Vehicles, aircraft, vessels	5,801	4,255	423
Articles of stone, plaster	187	0	387
Miscellaneous manufactured goods	1,474	0	370

South African Exports to Egypt by Commodity (continued)			
Commodity	*Value of Goods in 2001 (R000)*	*Value of Goods in 2002 (R000)*	*Value of Goods Jan–April 2003 (R000)*
Textiles & fabric articles	16,025	0	299
Mineral Products	7,089	0	298
Other unclassified goods	202	0	200
Wood pulp& other fibres	483	1,002	145
Live animals: animal products	169	0	10
Works of art, collectors items	0	0	7
Wood & wooden articles	68	0	1
Raw hides & skins, leather	60	0	1
Footwear, headgear	213	0	0
TOTALS	**275,039**	**178,971**	**89,724**
Source: South African Department of Trade and Industry, 2005.			

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The South African Institute of International Affairs (SAIIA)
P O Box 31596 Braamfontein 2017, South Africa
Tel: 27-11-339-2021
Fax: 27-11-339-2154
www.saiia.org.za
e-mail: info@saiia.org.za