

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

INVESTMENT POLICY REVIEW

EGYPT



UNITED NATIONS

United Nations Conference on Trade and Development

Investment Policy Review

Egypt

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PREFACE

The UNCTAD Investment Policy Reviews are intended to familiarize Governments and the international private sector with an individual country's investment environment and policies. The reviews are considered at the UNCTAD Commission on Investment, Technology and Related Financial Issues.

The Investment Policy Review of Egypt was initiated at the request of the General Authority for Investment and the free zones, and has received the full support of its President and staff. The UNCTAD missions received the complete cooperation of all relevant Senior Officials and Ministries of the Government of Egypt and the Permanent Mission of Egypt to the United Nations Organizations in Geneva.

The views of the international donor community in Egypt, the international private sector and domestic business were canvassed at various stages of the project.

This report has been prepared in cooperation with the Economic Research Forum for the Arab countries, Iran and Turkey (ERF). The ERF staff include Heba Handoussa, Managing Director, Sherine Ghoneim, Azza El Shinnawy, Maryse Louis and Dina El Halaby. The report has also benefited from the contributions of a number of experts within and outside Egypt. The national experts include Mahmoud Mohieldin, Noha Mahdy, Mahmoud Rezk and Adrien Swinscoe, and the international experts were Peter Buckley, Stephen Young and Ann Walker. The UNCTAD staff include Antoine Basile, Khalil Hamdani and Fiorina Mugione. Giovanni Nicola DeVito, Anna Joubin-Bret, Massimiliano Gangi, Pietro Pappalardo, Hector Rincon-Ortiz and Charles Yeterian also provided inputs. Chiraz Baly, Diana Domenichini and Omar Pizzasegola were research assistants. Comments were contributed by Rohini Acharya, Mohamed Cherifi, Ahmed Galal, Abdel Kader Fathy Lashine, Costante Muzio, El Sayed Torky.

The United Nations Development Programme provided funding through the Support Services for Policy and Programme Development (SPPD) and the UNCTAD/UNDP Sectoral Support Programme. Financial support was also provided by the Government of Switzerland. Contributions by the Alexandria Business Association and the Federation of Egyptian Industries also are gratefully acknowledged.

It is hoped that the analysis and recommendations of this review will promote awareness of the investment environment, contribute to improved policies and catalyse investment in Egypt.

Geneva, June 1999

INTRODUCTION

Business and professional analysts agree that Egypt is experiencing a take-off. Macroeconomics adjustment and stabilization efforts, pursued since 1991, have successfully redressed internal and external imbalances. Inflation is down to the one-digit level, while real economic growth is up in the 5 per cent range. The sources of growth are also more broad-based, as public expenditure has shrunk and private sector investment has accelerated, particularly in the tradable sectors of agriculture, manufacturing and mining, transport and tourism. There is a revival of private initiative and risk-taking among Egyptian enterprises, and a budding entrepreneurial class. The Government has set a target of reaching 7 per cent gross domestic product (GDP) growth by the year 2000, while maintaining low inflation, a stable exchange rate and prudent and predictable monetary and fiscal policies. Export oriented manufacturing industry is expected to be the main engine of growth. Other fast growing sectors are expected to be construction and tourism. The process of privatization is being accelerated and capital markets are being strengthened, giving an important boost to foreign direct investment (FDI) and portfolio flows into the economy. The target for 2000 is annual FDI inflows of US\$ 3 billion.

Openness and foreign investment are not new to Egypt. At the turn of this century, Egypt was a totally open economy. Trade, finance and industry were overwhelmingly concentrated in foreign hands, with more than 90 per cent of the paid-up capital of joint stock companies in Egypt in 1914 held by French, British and Belgian interests. The 1920s witnessed an industrialization drive, with tariff protection and public credit providing an enabling environment for the domestic private sector. There was significant growth and diversification into textiles and food, building materials, pharmaceuticals, fertilizers, paper, publishing and the cinema industry. FDI was encouraged, though it subsided in the interwar period and with the great depression. In 1958 the open door closed. All joint stock companies - domestic and foreign - were nationalized between 1960 and 1964. Central planning and budget allocations left little room for private initiative, even in the privately owned agricultural sector which was subjected to controls on cropping, procurement and price setting. However, in October 1973 the door reopened with President Sadat's announcement of a return to a free market economy. On the policy front, a more liberalized system of trade, investment and pricing was reintroduced. On the institutional front, restrictive legislative rules and regulations were reduced and replaced by clearer and more explicit property rights that protect and encourage domestic and foreign capital.

The period of State intervention was short in comparison with Egypt's past record and subsequent return to an open economy. It did leave a legacy of institutional rigidity, centralization and public-sector domination which has proved difficult to shake off: the transition to a market economy has taken a full 20 years. But today's Egypt does appear to have largely regained the characteristics of a fully functioning market system, in terms of achieving an equal level playing field for private and public activity, and for domestic and foreign enterprises. In 1997, Investment Law No.8 was enacted to complement and to introduce more coherence in the plethora of laws governing investment and it represents a considerable improvement on the investment regulatory framework that had evolved during the past two decades. Among the most essential provisions of Investment Law No.8 is the granting of national treatment to foreign investment.

In the years ahead, Egypt has the potential to attract FDI of higher quantity and quality, commensurate with the fundamental strengths and opportunities that its economy offers. These strengths include a large domestic market, a wide industrial base, a skilled and competitively priced workforce and a strategic location in the region. These competitive advantages were identified by a survey conducted among major transnational corporation (TNC) executives as well as managers of affiliates operating in Egypt. Based on these findings, the report examines Egypt's FDI potential and how it can be realized:

Chapter I summarizes recent FDI trends, situates Egypt in the world economy, and compares its FDI and trade performance with that of other countries. In brief, FDI has flowed into Egypt at a steadily increasing pace in the 1990s and the current level of inflow appears to be more stable than earlier. However, while FDI flows to Egypt are increasing, flows to other developing countries have been increasing more rapidly. Between 1990 and 1997, Egypt no longer ranked among the 20 largest recipients of FDI among developing countries; it should. Perhaps the resurgence is already under way, as preliminary data for FDI flows in 1998 totalled US\$ 1.8 billions. FDI approvals also suggest a substantial increase in realized flows over the next few years. Egypt currently boasts 26 out of the 100 world's largest TNCs. Domestic firms also benefit from a range of non-equity form arrangements with TNCs, including alliances, leasing technology or brand names, marketing and so on.

Chapter II reviews the investment policy framework. In brief, the economic reforms undertaken by the Government have improved the business climate, boosting local and foreign investor confidence. According to companies interviewed by UNCTAD, a growing economy, liberalized rules for FDI, and the prospective free-trade agreement with the European Union have produced a favourable investment climate in Egypt. However, the investment framework remains patchy and could be improved and further rationalized towards the establishment of an equal level playing field for both foreign and domestic investors. In the past year, the Government of Egypt has taken strides to further improve the country's business climate. When international business executives were asked whether changes to government policies in a country had improved competitiveness in the past year, Egypt was first of the 58 countries surveyed by the Global Competitiveness Report of the World Development Forum.

Table. Indicators of macroeconomics performance, 1990-1998
(Billions of US dollars and percentages)

Years	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
Real GDP growth, %	3.5	1.9	2.5	3.9	4.7	4.9	5.3	5.9
Inflation (CPI), %	22.0	21.1	15.0	6.0	9.4	7.2	4.8	3.8
Fiscal deficit, % GDP	17.7	5.4	3.5	2.1	1.2	1.3	0.9	1.0
CA balance, % GDP	3.1	9.5	10.4	9.8	0.3	1.5	1.2	0.1
External debt, % GDP	107.7	89.5	69.2	58.0	55.7	45.9	57.5	34.3
Official reserves, US\$ billion	6.1	10.6	14.9	17.0	17.9	8.4	20.6	20.0
Investment, % GDP	23.3	18.2	16.2	16.6	16.3	16.7	17.0	14.2
Domestic savings, % GDP	16.0	17.0	16.7	15.1	16.9	13.9	12.0	n.a.
Real wages, index 85/86=100	70.9	66.4	64.4	65.3	67.8	n.a.	n.a.	n.a.
Exchange rate LE/ ^a US\$1	3.33	3.33	3.37	3.39	3.39	3.39	3.38	3.43
GDP per capita, US\$	600	704	778	841	955	1 060	1 167	1 223

Source: Central Bank and Ministry of Planning.

^a LE = Egyptian pound

Chapter III analyses the attractiveness of Egypt as a location for FDI, and sketches the larger role that FDI may play in the Egyptian economy. In brief, Egypt's large domestic market is a magnet for FDI. The industrial base extends from labour-intensive industries through technology-intensive industries, to energy-intensive industries. There are a number of small but emerging high-skill service industries such as financial services and software development. Egypt enjoys comparative advantage not only in natural resources but also in several manufacturing industries, including textiles, engineering, metals, pharmaceuticals and food processing. FDI in manufacturing for the domestic market and labour-intensive export-oriented FDI offer the best prospects and are likely to provide the bulk of FDI in the near future. However, the potential for export should also be tapped and there are export niches in particular product groups in which affiliates based in Egypt could develop global production in the future. A key strategic objective should be to upgrade FDI in Egypt and ori-

ent it into higher value-added production. Egypt has not yet attracted significant FDI involving integrated international production; it can and it should. In encouraging expansion and upgrading of existing FDI into the future, the policy emphasis must be on infrastructure investment, relating to physical, technological and educational infrastructure. The development of concession or build-operate-transfer (BOT) type contracts could also be further enhanced, facilitating the private management of infrastructure projects. Sector-specific policies are also significant, to promote clusters of related enterprises and self-sustaining development.

Chapter IV illustrates the potential for upgrading FDI in selected industries — pharmaceuticals, textiles, tourism, electronics and software. These industries are expected to attract FDI in particular product groups in which Egyptian affiliates may develop regional and global production in the future. The report concludes with broad recommendations for improving the economic contribution of FDI in Egypt. These are intended to stimulate dialogue among policy makers, business and the international private sector on Egypt's investment environment, policies and future strategy.

I. Foreign Direct Investment in Egypt

A. Recent investment trends

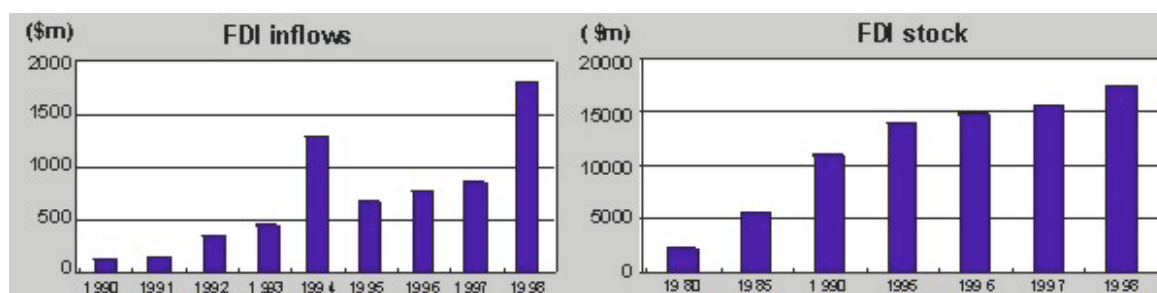
1. Foreign direct investment inflows

Foreign direct investment (FDI) has been flowing into Egypt at a steadily increasing pace in the 1990s.¹ Annual inflows were below US\$ 200 million in 1990, they are now nearly US\$ 2 billion. Although higher peaks have been reached in the past, the current level of inflow appears to be more stable than in earlier years: a moving average of annual inflows shows an upward trend (see figure I.1) Egypt attracts more FDI than any other country in the Middle East and North Africa (MENA). Egypt and Nigeria together absorb over 50 per cent of the total flows to Africa, and three quarters of the flows to the oil-exporting economies of Africa.

However, FDI flows to Egypt are not particularly large relative to similar countries in other developing regions. This is also true in comparison to countries undergoing similar transformation of their economic systems, such as the economies in transition of Central and Eastern Europe (see table I.1)

Moreover, Egypt's rank among the largest developing-country recipients of FDI has fallen, from 16 in 1994, to 19 in 1995 and down to 18 in 1998 (see table I.1). While the share of developing countries in world FDI rose from less than 10 per cent in 1985 to over 35 per cent in 1996, the share of Egypt and of the entire MENA region declined from 3 per cent in the late 1970s to about 1 per cent in 1996. Thus, the growth of FDI into Egypt has not been sustained in a period when the developing world has been attracting higher inflows.

Figure I.1. Inflows and stocks of foreign direct investment in Egypt, 1980-1998
(Millions of US dollars)



Source: UNCTAD FDI and TNC database, 1998

Within Egypt, FDI flows are small in magnitude relative to domestic economic aggregates. They amount to only 2 per cent of gross domestic product, and about 10 per cent of gross domestic investment (see table I.2). These ratios in other developing economies are generally higher. Another indicator of the potential of the domestic economy to absorb higher amounts of FDI is the profitability of FDI in Egypt. The available data on the 1995 earnings of affiliates of United States companies show an average rate of return of 22 per cent in Egypt, which is higher than the average rate of return of affiliates located in other developing regions, and twice as much as the average income of affiliates located in Europe (10 per cent). Thus, the contribution of FDI to capital formation in Egypt could be further expanded. FDI flows to Egypt are projected to reach US\$ 2.2 billion by the year 2000 (IMF, 1997; World Bank, 1997). This expectation is supported by the trend in investment project approvals.

¹ The FDI data in this section are taken from the balance-of-payments statistics, which underestimate actual investment in the view of the Government and International Monetary Fund.

The number and value of investment projects approved by the General Authority for Investment (GAFI) in the past two years are more than double the approvals of earlier years (see table I.3).²

The number of investment projects approved between 1995-1996 and 1996-1998 is larger than the total number of approvals over the two decades from 1975 and 1995. In terms of equity values, approved projects over the past two years represent between a quarter and a third of the cumulative stock of approved projects to date. Overall, the approval rate has increased over time from an average of 33 projects per year, in the five-year interval between 1970 and 1975, to 126 projects per year, between 1990 and 1995 (see table I.4).³

Of course, the translation of investment approvals into actual investments is not automatic. The rate of investment realization in Egypt is about 35 per cent, which is higher than the rate in other developing countries (see table I.5). There also appears to be a lag of about three years between the approval and start of operations of the typical investment project. These factors notwithstanding, it is likely that the implementation of approved projects will imply a tremendous increase in realized flows of FDI over the next five years.

Table I.1. World foreign direct investment inflows in developing economies, 1990-1998
(Billions of US dollars)

Rank/Country	1998 ^a	Average 1990-1997
More than 10 billion		
1. China	42.0	25.0
2. Brazil	24.0	5.3
3. Mexico	10.0	7.3
More than 5 billion		
4. Singapore	7.3	6.3
5. Argentina	5.6	4.3
6. Poland	5.5	2.2
7. Korea, Rep. of	5.1	1.3
8. Malaysia	5.1	4.4
9. Chile	5.0	2.3
More than 3 billion		
10. Thailand	4.8	2.2
11. Colombia	4.5	1.9
12. Venezuela	3.7	1.5
13. India	3.5	1.2
14. Russian Federation	3.0	1.6
More than 1 billion		
15. Saudi Arabia	2.4	0.4
16. Hungary	2.1	1.9
17. Peru	2.0	1.4
18. Egypt	1.8	0.6
19. Philippines	1.8	1.0
20. Nigeria	1.6	1.2
Total developing countries	155.4	89.4

Source: World Bank (1999) *Global Development Finance* and UNCTAD FDI/TNC database, 1998.

^a Provisional.

² GAFI's breakdown of inland projects is in two parts. The first part provides data on number of projects, authorized capital, investment cost and estimated employment by broad region (12 regions), subregion (24 governorates), major industrial cities (8 cities) and industrial zones (16 inland zones). The second part provides data for main economic activities (manufacturing, agriculture, tourism, services, construction and finance) for number of projects, authorized capital and investment cost for each of the same groupings.

³ Financial projects (a total of 517 of which 277 are in operation, with investment costs of LE 9 billion) are excluded from the analysis so as to avoid double counting investment aggregates, since a good part of investment costs consists of loans or equity provided by the financial sector.

Table I.2. Foreign direct investment inflows in Egypt, 1990-2000
(Millions of US dollars and percentage)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	2000 ^a
FDI, US\$ million	136	141	359	453	1285	677	770	850	1800	2248
FDI % GDP	0.28	0.42	0.86	0.97	2.49	1.12	1.1	1.2	2.1	3.9
FDI % GDI	0.96	1.76	4.36	5.99	11.81	5.43	8.66	8.70	10.0	19.5

Source: FDI from Balance of payments, Central Bank, GDP and GDI from national accounts, Ministry of Planning.

^a Projections for the year 2000, World Bank (1997). *Arab Republic of Egypt: Country Economic Memorandum*, Report N°. 16207-EGT

The global economic environment will also affect FDI flows to Egypt. However, to the extent that Egypt's main sources of investment are Europe and the United States, flows may not be affected by the forecast dampened investment by Japan and other Asian countries. In the immediate future, FDI into Egypt will be sustained primarily by domestic economic growth. On the domestic front, investors, foreign and Egyptian, are responding positively to the improved business climate, economic stability and the reformed institutional environment.

The Egyptian private sector is increasingly playing a lead role on the investment front. The trend in investment approvals shows that the average value of an investment project has not increased, but that the equity contribution of investment partners has shifted towards greater domestic participation. The foreign contribution to the total equity of investment projects has decreased from 61 per cent to 24 per cent between 1991-1992 and 1996-1997. Foreign investors are increasingly involved in non-equity arrangements and joint ventures with low-equity investment, and are also obtaining credit from the domestic banking system to finance investment projects. Thus, while foreign investment is growing, its contribution is shifting from the provision of capital, and is increasingly to be seen in terms of providing access to technology (tangible and intangible), markets and training.

Egypt currently boasts 26 out of the 100 world's largest TNCs. The top TNCs in Egypt in electronics include General Electric, IBM, Philips, Siemens, and Sony. Toyota, Nissan, Fiat, Daimler Benz and BMW have invested in the automobile industry. In petroleum, the key players are Amoco, Royal Dutch Shell, Mobil, Exxon, British Petroleum and the ENI group. Bayer, Glaxo, Hoechst, Novartis, Du Pont and Rhône Poulenc are in chemicals and pharmaceuticals. Unilever and Nestlé are in the food and beverage sector.

Table I.3. Number and equity of approved projects, 1991-92 to 1996-98
(Millions of Egyptian pounds and percentage)

	Total number of projects	Total equity LE million	Egyptian equity LE million	Foreign equity* LE million	Percentage of foreign equity in total
1991- 92	100	1 907	741	1 166	61
1992 - 93	180	2 497	1 586	908	36
1993- 94	164	3 614	2 522	1 092	30
1994- 95	726	6 167	5 092	1 075	17
1995- 96	1 432	13 317	10 322	2 995	22
1996- 97	1 729	16 184	12 367	3 817	24
1997- 98	2 187	28 646	23 242	5 404	19
Total 1991 - 97	4 431	43 686	32 633	11 053	25
Total 1974 - 90	1 501	14 518	14 518	6 479	45
Stock mid-1998	6 618	93 329	70 393	22 936	25

Source: GAFI, 1998. Calculated as change in annual cumulative stock figures from GAFI data sets.

Note: includes both inland and free zone projects.

* Foreign refers to Arab plus non-Arab investment.

Table I.4. Number and investment costs of inland projects approved, in operation and under execution, 1978, 1988 and 1998
(Number and millions of Egyptian pounds)

	1978	1988	1998
Number of projects			
Approved	591	1 380	6 618
In operation	170	850	2 441
Under execution	259	200	4 177
Investment costs			
Approved	2 967	14 302	182 289
In operation	467	7 228	70 639
Under execution	1434	1 939	111 650

Source: Based on GAFI tabulations for end 1978, 1988 and 1998.

2. The regional and sectoral distribution of investment projects

A feature of FDI in Egypt is the effort to diversify the geographical concentration of industry in Cairo. This effort includes the establishment of industrial zones, new industrial cities, free trade zones and technology parks. They are administered by different entities and offer different incentives to potential investors (see chapter III).

The first and second generation of eight new industrial cities established in the desert (Tenth Ramadan, Sixth October, Borg Al Arab, Sadat City, Amerya, Salheya, Badr and Obour) have been successful in attracting investment. In 1997, the eight industrial cities hosted a cumulative 1,093 projects (approved) valued at LE 28 billion (an average of LE 25.6 million per project) and employment of 187,557 (an average of LE 149,290 of capital cost per job created). New communities have also been launched recently in the Southern Valley.

Industrial zones, which are located adjacent to existing urban areas, have also attracted a large number of investment projects. Recent investment projects are located in Upper Egypt, adjacent to the existing cities of Assiut, Minia and Sohag. The total investment cost of 1,257 projects to be established there is estimated at LE 1,716 million (an average of LE 1.4 million per project) and total employment is forecasted at 62,148 jobs (an average of LE 27,612 of capital cost per job created).

Thus, small- and medium-sized enterprises appear to be responding to the provision of supervised land and related tax incentives in the less developed governorates of Upper Egypt. Hopefully, this policy will bear fruit in encouraging investment in the rest of the Upper Egypt governorates, for instance in each of the two new industrial zones in Aswan and Quina which have so far attracted less investment.

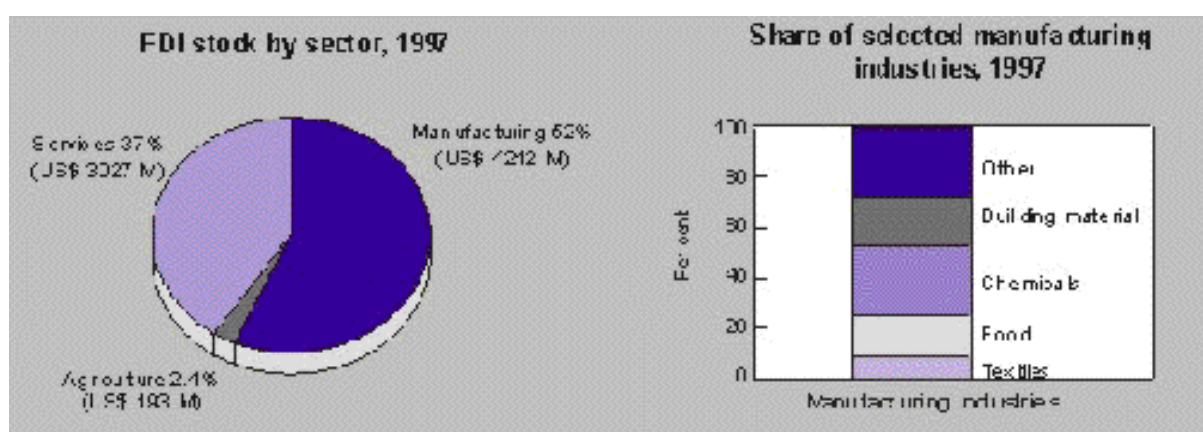
Table I.5. Investment projects realization ratio for selected economies, various years
(Percentage)

Country	Year	Realization rate
MENA region		
Egypt	1997	35
Turkey	1996	25
Asia		
China	1995	41
India	1994	17
Indonesia	1996	21
Singapore	1994	47

Source: GAFI and UNCTAD database on FDI and TNCs, 1998.

Investment in the free trade zones enjoys special incentives but they have been less successful than investment made in other industrial zones in attracting investment projects (see chapter IV). The free zones (Cairo, Alexandria, Port Said, Suez, Ismailia and Damietta) have attracted a larger share of foreign capital in terms of equity participation (34 per cent, compared to 22 per cent inland), but most of the projects are small scale and have lower investment costs. In 1998, projects in operation in the free zones have a total registered equity capital of LE 3,388 million for a total investment cost of LE 7,190 million. More than half of the approved projects are for storage and warehouse. New initiatives to facilitate export-oriented investment in the free zones are under way. Two new private-sector run ports in special free zones are to be established within five years east of Port Said at Sharq al-Tafria and the north-west end of the Gulf of Suez, north of Ain Sukhna. These free zones should function as port hubs and enjoy export-oriented services infrastructure.

Figure I.2. Distribution of foreign direct investment in Egypt by sector, 1997
(Millions of US dollars and percentage)



Source: GAFI, 1998

The “technology valleys” programme has been designed to develop new zones with dedicated infrastructure to attract investment in high technology industries. The first of this kind, the Sinai Valley, has been established in Ismailia. The first stage of the programme should develop 3,000 acres, including an “immediate area” of 220 acres already reserved by investors. Investment plans include multimedia, CD-ROM, satellite dishes and computer components. The Sinai Valley is expected to become fully operational by the year 2008 and other valleys are in the planning phase, including Sixth October, Sohag and Nag Hamadi (see figure I.3 and chapter IV).

The sector list of approved projects by GAFI shows that investments in manufacturing are growing rapidly (from a low base), and in 1997 accounted for 46 per cent of overall investment costs of inland projects, up from 35 per cent in 1978. Within manufacturing, the most important industries are chemicals, building materials, engineering, food, metals and textiles.

The second largest FDI sector in absolute value and growth is tourism, where investments tripled in value between 1978 and 1988. They grew dramatically - by a factor of 14.5 - between 1988 and 1997, but will have slowed down after the 1997 terrorist incident at Luxor. Finance is the third largest sector for FDI. The most successful investment locations have varied according to the sector of economic activity.⁴ Manufacturing has concentrated in Tenth Ramadan, Sixth October and Cairo (see table I.6).

⁴ See statistical annex.

The highest average capital cost per project is in Amerya at LE 67.8 million (due to the large size of the Amerya textile complex) followed by Cairo, Sixth October and Tenth of Ramadan. In services, the highest average capital cost per project is in Sixth October at LE 168 million per project (due to the large “Media City” complex being developed), followed by the Red Sea, Cairo and South Sinai.

Table. I.6. Sectoral and regional distribution of investment projects, 1998
(Number and millions of Egyptian pounds)

Projects	No. of projects	Investment cost million	Top 4 cities in terms of number of projects
Manufacturing	3 343	54 320	Tenth Ramadan (442), Sixth October (360), Cairo (369), Assiut (268)
Agriculture	399	10 011	Albihera (52), Giza (44), Sharkia (29), Assiut (25)
Tourism	797	38 977	Red Sea (241), South Sinai (192), Cairo (138), Giza (78)
Construction	251	12 155	Cairo (124), Giza (61), Alexandria (15), Red Sea (11)
Services	506	10 995	Cairo (212), Giza (93), Alexandria (134), Sharkia (28)
Finance	392	15 555	Cairo (237), Giza (114), Alexandria (19), Port Said (6)
Grand Total	5 688	142 013	

Source: GAFI, 1998

3. The main investors

There are three important Sources of investment in Egypt: Europe, the United States and Arab investors, particularly the Gulf States. According to home country statistics, the United States holds the largest FDI stock in the country – US\$ 1.6 billion in 1996 and Italy, albeit at a low level, holds the highest average growth rate of stock (50 per cent) between 1990 and 1996 (see table I.7). France, the largest investor in North Africa (mainly in Morocco and Tunisia), does not have a significant investment presence in Egypt.

Table 1.7. Foreign direct investment stock of major investors countries in Egypt, various years
(Millions of US dollars and percentage)

Investor country	Year	Egypt
France	1994	n.a. ^a
Growth 1990-94		n.a. ^a
Egypt's share in total FDI in Africa		1% ^b
Germany	1995	102
Italy	1994	2
Growth 1991-1994		53
Egypt's share in total FDI in Africa		50%
United Kingdom	1995	116
Growth 1990-1995		19%
Egypt's share in total FDI in Africa		2%
United States	1995	1409
Growth 1990-1996		11%
Egypt's share in total FDI in Africa		27%

Source: UNCTAD database on FDI and TNCs, 1998.

^a not available.

^b Estimate.

The geographical distribution of FDI in Egypt is similar to that of other countries in the MENA region. Foreign investments in Egypt, Lebanon, Morocco, Syria and Tunisia are dominated by European firms (over 70 per cent). The United States is a very important investor in Algeria, Egypt and Israel, particularly in energy-related investments.

A striking difference between the MENA region and other developing regions is the relatively low level of regional investment. However, in Egypt, Arab investors participate in a quarter of all approved projects. But these tend to be more in construction and in industries with somewhat passive financial commitments, and less in manufacturing or in industries with the potential to transfer technology and managerial experience. A notable exception is the food industry, where regional investment play a leading role. Regional investment, accompanied by industrial upgrading, was experienced in some Asian and, increasingly, in Latin American countries.⁵

There is also a clear pattern of sectoral concentration for other home countries. For example: the United Kingdom has an above average presence in food processing and services (including tourism); Belgium in building materials; France in agriculture; Germany in building materials, tourism and engineering; Italy in engineering, metals and tourism; India in textiles and chemicals; Japan in metals; the Republic of Korea in building materials and metals; Switzerland in tourism, chemicals and engineering; and the United States in chemicals, building materials and engineering (see statistical annex, table 5). Overall, FDI in Egypt originates from more than 35 foreign countries.

B. Impact of FDI in Egypt

FDI can stimulate exports, technology transfer and technological capacity building, as well as human resources development. The following sections briefly review trends in these areas.

1. Egypt's export performance

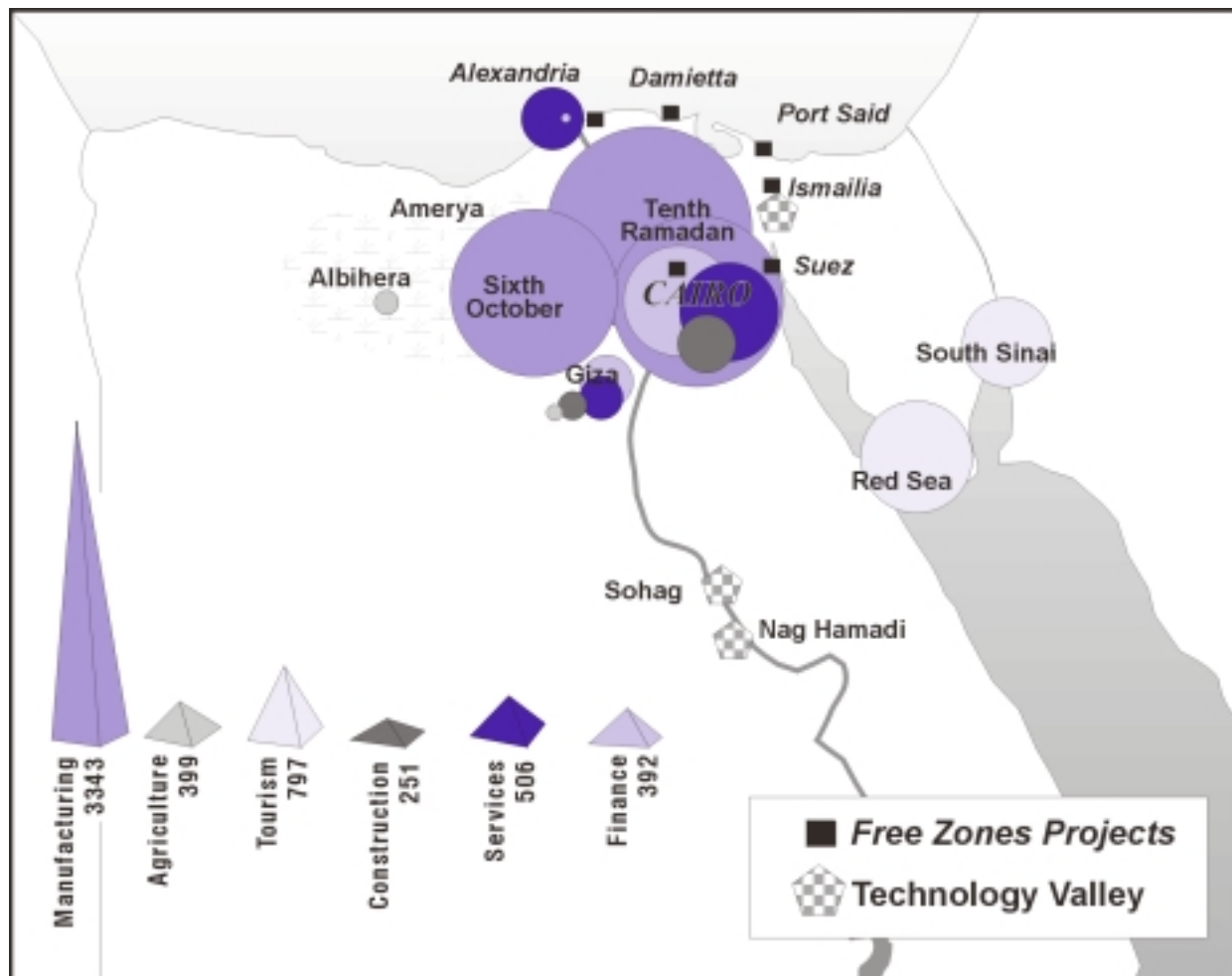
Egypt is centrally located in close proximity to the markets of Europe, North Africa and the Middle East. This presents opportunities to serve as a hub for transport and other services, as well as to serve as an export platform. Preferential access to the European Union market gives Egyptian exports an edge over those originating in several developing Asian economies, including, for example, Malaysia and Thailand. However, most of Egypt's neighbours also have preferential access to the European market, and some have gone further in their integration process with the European Union, as in the case of Morocco and Tunisia. The upcoming free trade agreements that Egypt is negotiating with the United States should also open new opportunities.

Egypt is only starting to reap benefits from these promising prospects. Export values have doubled between 1990 and 1996 but are still low: the value of exports is less than 10 per cent of industrial output in contrast to an average share of 15 per cent in developing countries (see table I.8). Exports and imports as a share of GDP remained relatively steady between 1990 and 1997 (World Trade Organization, 1999)⁵.

Moreover, the volume of exports in products with revealed comparative advantage (RCA) is low. Egypt's export distribution shows a dependence on extractive or primary processing stages of raw materials (agricultural raw materials, food, ores, metals and fuels), despite the growth of manufactured exports between 1986 and 1996. In 1996, more than 60 per cent of manufacturing exports were low skill products.

⁵ Peter Petri (1997). "The case of missing foreign investment in the Southern Mediterranean", OECD development Centre, UNCTAD (1997). *World Investment Directory: West Asia Sales N° E97.II.A.2*; World Trade Organization (1999). *Trade Policy Review of Egypt*.

Figure I.3. Number of investment projects in Egypt by sector and location, 1998



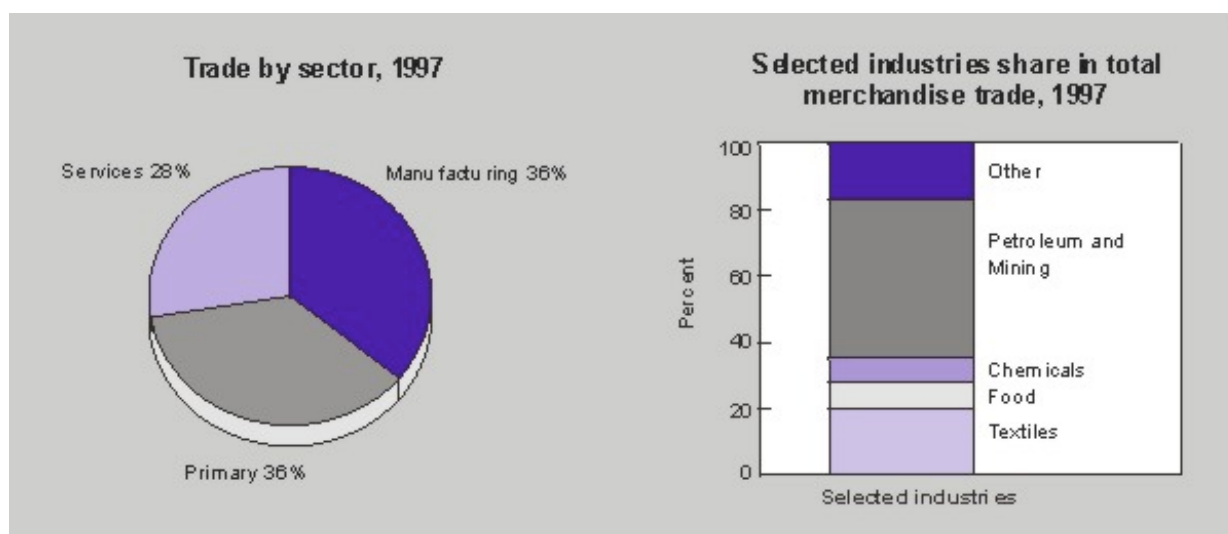
Source: GAFI, 1998.

The Southern Mediterranean economies (Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestine, Syria and Tunisia), all rely on the primary sector as shown by the RCA index for selected Mediterranean countries (see annex table 6).

Comparing Egypt's export growth with the growth of international demand (world imports),⁶ Egypt's competitive exports or "rising stars" are cotton, garments, pharmaceutical products and automobile parts. At the same time, Egyptian exporters are gaining shares in markets that are declining or growing at below average rates. These "falling stars" include petroleum products, vegetables, textile articles and clothing. For these products, new market niches can offer opportunities to expand exports in spite of an overall decline in world imports (see table I.9).

In Egypt there does not appear to be a close association between FDI and exports. While manufacturing industries receive more than half of all investment, manufactured products account for only a third of total exports. Within manufacturing, textiles represent 38 per cent of total exports, followed by food (33 per cent) and chemicals (16 per cent) (see figure I.4). There is strong investor interest in chemicals and chemicals have a growing share in Egypt's exports. However, there is relatively little presence of FDI in textiles and food. In addition, electronics and auto parts have positive RCAs but receive little FDI.

Figure I.4. Distribution of trade in Egypt by sector, 1997
(Millions of US dollars and percentage)



Source: GAFI, 1998

Thus, the question arises whether greater investment, both foreign and domestic, can be attracted by industries in which Egypt has comparative advantage and where export potential remains largely untapped. In addition, in some export industries such as textiles, FDI could perhaps contribute to upgrading exports, by shifting from low value added textiles and yarn to higher value-added garments. Overall, Egypt's export pattern and trends suggest the need to encourage manufacturers to enter export markets and upgrade the country's production and trade structure.

⁶ "Egypt's export performance and international demand", 1997, ITC, Geneva.

FDI complements trade by enabling countries to gain from international specialization, by expanding the size and scope of markets and by providing access to the trading and information networks of global companies. How important are such linkages in Egypt? The value and the composition of intra-firm trade and the export propensity of foreign affiliates are not known for Egypt; however, as intra-firm trade is generally characterized by high levels of trade in intermediate products, inter-industry trade data can serve as a proxy for intra-firm trade.

Table I.8. Egypt's export distribution by main categories, 1986 - 1997
(Percentage)

Type of export	1986	1990	1994	1995	1997
Agricultural raw materials and all food items	23	19	16	16	12
Ores and metals and fuels	57	38	44	44	59
Manufactured goods	20	43	40	40	40

Source: UNCTAD (1997). *Handbook of International Trade and Development Statistics* Sales No. E/F.97.II.D.7

An inter-industry trade index has been calculated to estimate Egypt's degree of industrial specialization.⁷ The index is low: 0.17 in 1992-1994, compared to 0.89 for the European Union and 0.58 for Israel, 0.30 for Tunisia and an average of 0.25 for 13 Arab countries. However, the index is rising fairly rapidly: it was 0.10 in 1984-1986, compared to 0.88 for the European Union, 0.47 for Israel, and an average of 0.16 for the 13 Arab countries. Thus, while Egypt's inter-industry trade is still limited, there appears to be potential for expanding trade and investment linkages (as the index is low but rising rapidly).⁸

Table I.9. Egypt's portfolio of exports

Growth of world imports 1992-1996		
LOW	Losers in declining markets	Achievers in adversity
	Petroleum oil & crude	Petroleum products
	Textile yarn	Vegetables
	Cotton woven	Men clothing
	Works of art	Textile articles nes
HIGH		Women clothing
		Chemicals
	Underachievers	Champions
	Rice	Cotton
	Aluminium	Coke
	Electronics	Men wear knit
	Sugar, molasses	
	Pharmaceuticals	
	Motor vehicle parts, accessories	
	LOW	HIGH
Growth of export of country 1992-1996		

Source: UNCTAD, Comtrade database, 1998.

⁷ The index in sector *i* is usually defined as: $II_i = 1 - \frac{ABS(X_i - M_i)}{(X_i + M_i)}$, where X_i is exports of *i* and M_i is imports of *i*.

⁸ Peter Petri (1997). "Trade strategies for the Southern Mediterranean", OECD Development Centre, Technical Papers No. 127; Havrylyshyn, O. and P. Kunzel (1997). "Intra-industry trade of Arab countries: an indicator of potential competitiveness", Working Paper of the IMF, Washington, D.C.

2. FDI and technology

Technology has long received priority in Egypt, but emphasis has been placed more on scientific research and less on technological innovation in the productive sphere or at the enterprise level.⁹ Egypt's technical skill base compares favourably with that of its neighbours (see table 1.10 and 1.11). However, expenditures on research and development (R&D) are relatively low, especially among productive enterprises (see table 1.12). Thus, relative to neighbouring countries, Egypt exerts considerable effort on the upkeep of scientists and institutions, but significantly underspends on the actual conduct of R&D.

The Egyptian science and technology (S&T) infrastructure therefore has key strengths and weaknesses. The strengths include: a ready supply of educated and specialized personnel; a network of R&D institutions; some well focused industrial R&D; and a long tradition of Government commitment towards, and financial support for, S&T institutions.

The weaknesses include: inefficient management structure; inadequate resources; weak links between R&D institutions and industry; ineffective and non-motivating funding policies; and a relative isolation of S&T institutions from larger socioeconomic activities. Egypt's S&T institutional structure is extensive. Three Government ministries deal with S&T: Industry, Scientific Research and Public Enterprise Sector. The Export Development Bank and the Industrial Development Bank maintain technical departments to assist the private sector. There are several universities and numerous institutes. Although these institutions maintain some linkages with product development and undertake joint research with the private sector, the interaction with the private industrial sector is weak, and government institutions appear to provide general services to small and medium enterprises in a passive way.

Seventy per cent of Egypt's more than 300 S&T institutions are involved in higher education, and only 16 per cent are involved in the productive sector (see table 1.12). There is a lack of institutions for quality control, design, standardisation, etc. In addition, the private sector conducts little R&D, and both public and private R&D are below the benchmark of 1 per cent of GDP set for developing countries.¹⁰

Table 1.10. Skills for technology development
(Number and percentage)

Country	Numbers enrolled as % of age group						Enrolments in tertiary education			
	Primary		Secondary		Tertiary		Technical fields		Engineering	
	1970	1990	1970	1990	1970	1990	1990			
							No.	%	No.	%
Egypt	72	98	35	82	18	19	66 610	0.12	42 354	0.08
Morocco	52	68	13	36	6	10	70 933	0.28	2 275	0.01
Tunisia	100	116	23	45	5	9	13 939	0.17	4 792	0.06
Turkey	110	110	27	54	6	14	144 446	0.26	96 633	0.17

Source: World Bank-IDF

Egypt's base of trained and skilful technical personnel has attracted foreign companies involved in a range of economic activities. Their operations have facilitated a diffusion of production technologies and managerial practices (successful cases in a number of dynamic industries and services are presented in chapter IV). The variety of FDI in Egypt is illustrated in table 1.13. In scanning this list, it should be borne in mind that FDI can take a variety of forms, and that no single form is ideal.

⁹ World Bank-IDF (1997). "Egypt private sector assessment", Washington, D.C.

¹⁰ World Bank-IDF (1997). "Egypt private sector assessment", Washington, D.C.

Some forms (such as wholly owned subsidiaries) tend to be more conducive to the transfer of advanced proprietary technologies to the host country, while others (such as joint ventures) are seen as more supportive of technological learning by host country enterprises.

Table 1.11. R&D expenditures and personnel in Egypt, 1990

Country	R&D (%GNP)	R&D by productive enterprises (% GNP)	Scientist/engineers in R&D (per 10,000 employees)	S&E in R&D (per million population)
Egypt	0.2	0.04	15	439
Turkey	0.7	0.5	12	224

Source: World Bank-IDF, 1997.

The transfer of tacit technologies through informal exchanges between managers in the same firm (TNC or joint venture) is likely to be far more intense than between firms, as in licensing arrangements. The more integrated is an affiliate in a global company network, the greater are the possibilities for affiliates to acquire company-wide best practices. The more stand-alone is an affiliate, the greater will be likelihood for the linkages with domestic firms and local R&D institutions.

Linkages with local suppliers can give rise to positive externalities. However, subcontracting is still not very developed in Egypt. Supply linkages between large and small enterprises, and between local firms and foreign buyers appear to be weak by international standards, even for linkage-intensive industries, such as automobiles and consumer durables.¹¹ Most investment projects have taken the form of joint ventures with the foreign partner often the minority shareholder. In most joint ventures, transfer of know-how is limited to the production facilities in Egypt with little diffusion in the local market.

An obstacle to increased subcontracting is the limited availability of technically skilled (with shopfloor experience) local suppliers. The majority of Egyptian manufacturing enterprises are small- and medium-size firms which generally lack operating technology, and organizational and managerial capabilities, and have difficulty in meeting the quality standards and delivery targets required by foreign companies. Local TNC affiliates rate positively the benefits gained from their parent companies. In the UNCTAD survey (see figure 1.5 and the annex for full details) of firms operating in Egypt, affiliates acknowledged benefiting from linkages with foreign firms through technology acquisition and training, and by association with an international brand name.

**Table 1.12. Classification of S&T institutions according to sector of performance
(Number and percentage)**

Sector performance	Number	Percentage
Higher education sector	223	70
Productive sector	51	16
General services	44	14
Total	318	100

Source: World Bank-IDF, 1997.

¹¹ International Finance Corporation and Foreign Investment Advisory Service, (1993). "Linkages between Egyptian and foreign firms", Washington D.C..

Table 1.13. Examples of types of foreign investment in Egypt

Type of investment	Examples
Wholly owned subsidiary	Oracle, Bechtel, IBM, Nestlé, 3M, Shell, Xerox
Majority owned subsidiary	Glaxo, (90%) Novartis (70%) Lecico (75%) Eli Lilly (85%)
Joint ventures	Ezz Group, Suzuki, GM
Minority foreign ownership	P. Scherer (10%), Pharco (20%)
Licensing	Cleopatra Ceramics, Baghat
Franchising	Tefal, Benetton (retailing)
Management contracts	Prevalent in hotel sector, Accor, Hilton
Embodied technology transfer	Oriental Weavers
Turnkey projects, BOT	Technip and other utilities, gas projects
Export/Imports	Subcontracting, outward processing trade in textile and garments, electronics, distribution

Source: UNCTAD survey, 1998.

The three most important benefits cited are improvements in productivity, product development and sharing R&D. The surveyed companies did not feel that their affiliation with foreign companies particularly benefited the formation of linkages with local suppliers. This suggests the need for appropriate policies to encourage greater linkages between foreign companies and local suppliers.

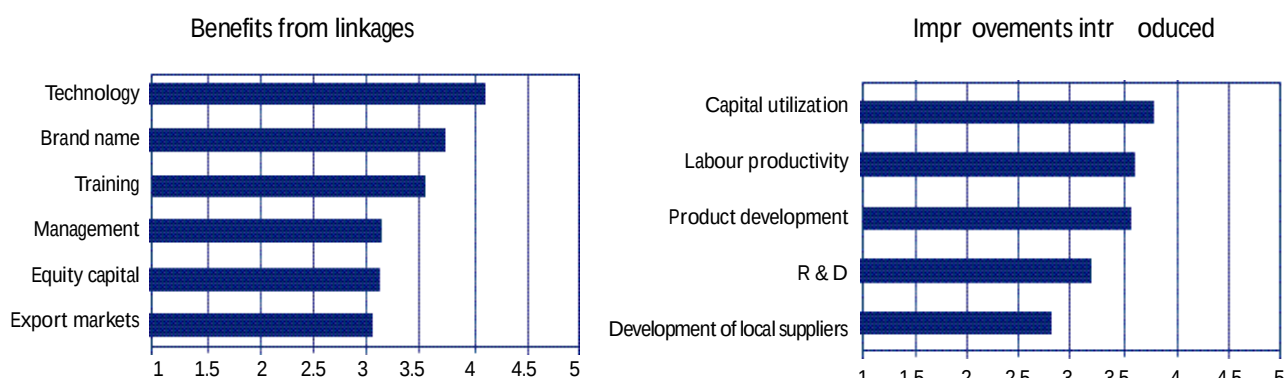
There may be potential to strengthen interaction between producers, suppliers and local R&D institutes in certain industries with opportunities for innovation and investment, such as agronomy and textiles and garments.

Both sectors have a reservoir of natural resources, local expertise and a broad market base of economic actors. Greater interaction among the actors would not only stimulate innovation in those industries but also invigorate the 'surrounding and complementary areas' (i.e. down the supply chain, through distribution and customer links, in supporting industries). Information technology could also be a catalytic industry, as the country is a leading centre for Arabic language with a sizeable industry based on publishing literary works and producing cultural by-products (see chapter IV).

3. FDI and human resources development

Investment projects with foreign participation have generated employment and have been particularly successful in creating new employment opportunities in the new industrial zones, new communities and free zones. In terms of job creation, a third of total employment (592 thousand jobs in the 5,113 approved projects up to 1997) is located in the desert industrial cities (193.3 thousand jobs), followed by 17 per cent in the new industrial zones (100 thousand jobs), and 13 per cent in Cairo (78 thousand jobs). Together they account for 63 per cent of all new employment. In Upper Egypt, the investment projects are small in size and labour intensive, and are contributing to employment creation.

Skills relevant for investment projects are available and especially ample at the secondary level. In technical fields, Egypt boasts the largest number of skilled labour in the MENA region. In engineering, only Turkey compares with Egypt.

Figure I.5. Benefits from linkages with TNCs

Source: UNCTAD/ERF survey, 1998.
 Note: Average score, from 0 to 5 (highest rank)

Nevertheless, some foreign companies operating in Egypt report a shortage of middle-level managerial and supervisory personnel. In spite of these shortages, turnover is reported to be not high, perhaps because these companies often offer higher wages and better employment benefits than other firms. It is also reported that the specialized training needs of industry and new services are not adequately met by existing institutions, whose curricula are not geared to fast-changing skill requirements.

Thus, there may be need to emulate in Egypt the successful experiences of other countries (e.g. Malaysia, Singapore) in developing specialized training led by the private sector. Such possibilities in services (tourism, software) and in manufacturing industries (e.g. pharmaceutical, electronics, food processing) are presented in chapter IV.

C. Overall assessment

There is substantial and growing FDI in Egypt. While recent trends may not be as spectacular as in other countries, the quantitative performance is encouraging on the whole and certainly within the Arab region and in Africa (where Egypt is set to overtake Nigeria as the largest recipient among developing economies of FDI inflows).

At the same time, the qualitative aspects of recent FDI trends warrant reflection. While current FDI inflows have met the objectives of job creation and output expansion, most industrial projects have so far failed to boost exports. In itself this may not be a problem: in a large economy production for the domestic market is usually more profitable than for export. But with the broad range of economic reforms under way to support export-led private sector growth, it is worth considering why Egypt does not appear to attract much 'offshore production' aimed at advanced country final markets.

One reason arises from limited involvement of TNCs in manufacturing with export potential, such as food, garments and electronics. The lack of FDI in such sectors also suggests the difficulty of achieving good supply chain management when Egypt is a part of the international value chain. At the firm level, Egyptian enterprises could suffer from low productivity, poor product quality or design, and limited ability in problem solving in repairs and maintenance. Improvements in these areas are essential for increasing the possibility of Egyptian firms' integration in international networks.

The contribution of FDI to the development of the technological capabilities of domestic enterprises could also be enhanced. For example, subcontracting should be facilitated. Egypt's extensive S&T infrastructure needs to be more supportive of the private sector, and links between R&D institutions and industry need strengthening. Proactive policies include support to domestic firms in the form of technical and infrastructural services, and incentives or seed funds to provide for technology upgrading.

The longer-term objective in deepening linkages with foreign companies is to become more closely integrated with the world's S&T networks. Egypt needs to engage more closely with S&T suppliers and upgraders internationally. International collaboration may necessitate a change of culture and outlook in the domestic S&T institutions, and arguably a strong dose of international collaboration and competition may well force a way forward.

The strong private-investment response which can be leveraged by substantial progress in the current economic reforms and liberalization, needs to be supported by appropriate policies to improve the business climate in order to enhance Egypt's attractiveness for FDI, and to initiate effective policies to attract new investors and to support capacity expansion and upgrading among the stock of existing investors. Against this background, Egypt's investment policy framework is reviewed in the next chapter.

II. The policy framework

A. Government policy objectives

The Government of Egypt recognizes the importance of private investment for economic growth. National policy objectives are aimed at achieving private-sector led, outward-oriented economic growth, through the following:

- ◆ Maintaining a stable macroeconomic environment by ensuring fiscal and monetary discipline and by strengthening monetary policy tools, thereby raising the rate of economic growth.
- ◆ Opening the economy to foreign investors and pursuing the process of privatization. At the macro level, privatization provides substantially increased government resources and reduces the government's financing requirements. At the micro level, it improves the performance of enterprises both directly and indirectly. Privatization in Egypt will also improve the business climate by sending a signal of confidence to both domestic and foreign investors (Box II. 1).
- ◆ Creating a business-friendly environment, through the establishment of a comprehensive and transparent set of business regulations, improving the institutional and regulatory environment for investment.
- ◆ Developing capital markets. The Government has identified the need to increase competition in the financial sector and to strengthen financial market institutions and the Capital Market Authority (Box II. 2).
- ◆ Attracting foreign direct investment. The role of FDI is important in increasing the level of private capital inflows in total domestic capital formation, in providing technology and in improving marketing and management techniques. FDI could also contribute to increasing and diversifying manufacturing exports.

B. Main regulatory issues

Since the mid-1970s, the Government has introduced various laws increasing Egypt's openness to foreign investors. In 1997, Investment Law No. 8 was enacted to complement and to introduce more coherence in the plethora of laws on investment and it represents, to a certain extent, an improvement of the investment regulatory framework that has evolved during the past two decades (see table II.1). Among the most essential provisions of Investment Law No. 8 is granting of national treatment to foreign investment. Other provisions regard guarantees for repatriation of profits and guarantees against expropriation.

After the enactment of the new law, UNCTAD conducted a survey of firms with foreign participation operating in Egypt and a survey on potential international investors (see Box II.3 and annex for full details). The international business circles perceived the new investment law as a step towards granting an equal level playing field for domestic and foreign enterprises.

The survey by UNCTAD and ERF in Egypt shows that executives of TNC affiliates see a drastic improvement of the business climate brought about by the adjustment and stabilisation programmes adopted by the Government as well as by the enactment of the Investment Law No. 8.

In addition, the survey on international investors conducted by UNCTAD has evaluated Egypt's attractiveness to potential investors, considered a range of economic and policy variables. The results presented in table II.2 and confirmed those of other surveys. According to the companies interviewed, a growing econ-

omy, liberalized rules for foreign direct investment, and the prospective free-trade agreement with the European Union have greatly contributed to a favourable investment climate in Egypt.

In this regard, the World Economic Forum “Global Competitiveness Report” (1997) ranked Egypt 28th out of 53 countries, and highlighted both positive and negative features of business climate in Egypt. On the positive side, Egypt ranked high in terms of the investment protection schemes available to investors, its geographical location, exchange stability and labour costs. Problems concern the size and efficiency of the administration, the extent of the country’s openness to trade, a lack of management skills, an insufficiently flexible labour legislation and the poor quality of institutions supporting commercial activity. However, the Report states that when international business executives were asked whether changes to government policies in a country had improved competitiveness in 1996, Egypt was first in the 58 countries included.

Table II.3. presents a comparative review of the legal framework for FDI in selected MENA countries. Cautious interpretation is necessary because practices may differ from formal rules. Unlike other countries in the MENA region, which have a long tradition of openness (e.g. Lebanon), Egypt has a specific regulatory and institutional framework governing foreign investment while in other countries the general regime applies both to foreign and domestic investors.

The conditions set by the new regulatory framework for investment in Egypt are as follows:

1. Investment treatment

- (a) *General regime*

The basic law governing the establishment and operation of companies in Egypt is the Companies Law No. 159 of 1981. It sets out the rules and procedures for incorporation in Egypt and regulates taxes, fees and employment rules. Foreign companies may incorporate under the Companies Law, but there are some articles that limit foreign ownership.

Thus, the majority of foreign companies choose to register under Investment Law No. 8, under the administrative authority of the General Authority for Investment and the free zones (GAFI). The new law consolidates guarantees established by the Constitution and lists 16 areas which may benefit from automatic approval and other incentives.

The activities covered are the following: land reclamation; fishing, poultry and animal production; industry and mining; tourism -- hotels, motels, villages, tourist transportation --; maritime transportation; refrigerated transportation and related services, air transportation and related services, housing; real estate development; oil production and related services; hospitals and medical centers that offer 10 per cent of their services free of charge; water pumping stations, electricity, roads and communications; venture capital; computer software production; projects financed by the Social Fund for Development; leasing; risk capital and guarantees for subscription in securities. With the executive decree of August 1997, petroleum refining and cinema production were added to the fields of activity for investment (Art.3 (a)).

Box II.1. Privatization

By 1991, in the context of the ERSAP, Law 203 (the public enterprise law) addressed public enterprise reform. The law was designed to eliminate the difference in treatment between public and private enterprises. The Government has adopted two approaches to reform the State Owned Enterprises (SOEs). First, it granted autonomous management to SOEs, and secondly, it introduced regulatory measures for the SOEs and the private sector. Public-sector companies were separated from their ministries and reorganized into 17 diversified and financially autonomous holding and affiliated companies. The holding companies were made dependent on their economic viability and were prepared for privatization, restructuring or liquidation. The selection of companies to be privatized is based on two different approaches: sales to the stock market; and sales to anchor investors which could bring technology and access to markets. The criteria for selection were the following: for stock markets: a choice of profitable companies avoiding the sale of strategic companies or companies in need of restructuring; for anchor investment: tackling financial problems but not market-ing problems; use of sales agents that help in identifying potential buyers.

Privatization through the stock market has achieved some success. Privatization through the mechanism of strategic investors did not meet the expected demand, and the programme is now relying more on public subscriptions as the lead strategy. Port services, telecommunications, electricity, banks and insurance companies are all set to be privatized. The privatization programme encountered various difficulties such as the regrouping of the companies to be privatized in specialized holdings in view of their financial restructuring, unemployment concerns, the limited role of the securities market and the lack of involvement of foreign investors. Between 1995 and 1997, the privatization programme accelerated. Offers were made of 113 companies out of 314 and 80 per cent were offered in the past two years. Total cash proceeds reached about 3 per cent of GDP (LE 9.2 billion).

Egypt's experience during the last two years has shown that there is a two-way relationship between financial sector development and privatization. The progress in the capital market has facilitated the privatization process by mobilizing domestic and foreign funds. Privatization, in turn, has attracted portfolio investment that revived the activities of the Egyptian securities market. Banks in Egypt have also played a vital role in the valuation of SOEs offered for sale, introducing sub-custodian services, financing leverage and management buyouts. Some of the banks adopted the universal banking concept and have established investment funds in dealing with shares of privatized companies, and penetrated the fields of venture capital, brokerage and portfolio management.

Source: UNCTAD Survey, 1998.

Investments are approved automatically for projects in one or more than one area. The following categories still require prior approval from interested ministries before an investor contacts GAFI: all military products and related industries; tobacco and tobacco products; any investment in the Sinai.

The most notable change in the new investment law is the opening up of the fields of activity which were previously restricted to foreign investors. These include infrastructure (electricity, water, transport), financial leasing, oil and gas services. The list of fields of activity is not exhaustive, as article 1 permits the Cabinet of Minister to add new activities to the list. In addition, the Executive Regulation, under Article 1, defines more in detail the scope and nature of activities covered by Investment Law No. 8.

Box II.2. Financial market reforms

In 1991, a 3 year programme to reform the capital market was designed, with the assistance and guidelines prescribed by the World Bank, to develop the securities market, a key intermediary institution that mobilizes savings and channels them towards investment. This programme included implementation of a new Capital Market Law No. 95 of 1992 (CML). The new Law aims at organizing and developing the securities market, under the direction of the Capital Market Authority (CMA). The Authority is in charge of protecting investors against unlawful and unfair practices, and guarantees the availability of relevant information, through a prudential regulation scheme, that is to incorporate liquid capital requirements based on actual risk exposure and a record-keeping and reporting system to facilitate supervision.

The Authority is given complete jurisdiction over the stock exchanges to monitor their performance, in addition to assuring that all listed companies comply with regulations. The Executive Regulations stipulated that both the Cairo and Alexandria Stock Exchanges link their trading floors, through an advanced communication system, in order to facilitate direct access to prices, trading clearance, settlement and the transfer of ownership, as well as providing better information to the regulating agency and the public is in the process of development. Previous market entry restrictions which were obstacles for international investors have been eliminated. These measures, aimed to liberalize the capital market, have enabled foreign investors to be treated as national firms, abiding by the same legal and administrative processes.

As a result, greater access to capital is expected to be forthcoming, allowing for more expertise and the diversification of market intermediaries and investment services. Moreover, allowing international firms to engage in the market, will help to introduce more capital, expertise and investment services. Different institutions to meet the increased demand for securities, especially for non-professionals, are warranted. Examples of these institutions are:

- ◆ Brokerage companies: Currently, there are 140 brokerage companies. One of their functions is to increase the awareness of trading in securities and provide advice to investors;
- ◆ Portfolio and management firms: Approximately 20 of these companies presently exist in Egypt. People interested in investing in securities may give power of attorney to these experts, who would in turn design a diversified portfolio to help minimize risks for the investor's account; and would lower interest rates, improve savings performance, facilitate capital mobility, and boost investment. The outcome of such a reform programme resulted in a more efficient securities market capable of serving as a revitalized source of capital formation and risk management, broader ownership of economic assets and new types of securities and financial service.

Market capitalization in Egypt has increased from a mere US\$ 3 billion five years ago to US\$ 20 billion in 1998. There is also an increase in the number of listed companies. Of the 90 companies listed, 57 showed yearly profit increases above 11 per cent. The upgrading of the capital market facilities should continue, including new financial legislation that would provide a satisfactory system of disclosure, improve information services and support small and medium enterprises.

Source: UNCTAD Survey, 1998.

(b) Ownership conditions

Egypt allows 100 per cent foreign ownership in investment fields specified under Investment Law No 8. Businessmen investing in any other sector not covered by this law will operate under Companies Law 159. Under the Companies Law, corporations must initially publicly offer shares of at least 49 per cent of the company to Egyptians for one month, and only if there are no subscriptions by Egyptians, may foreigners purchase the majority of shares. Ultimately, under Law 159, companies may also have 100 per cent foreign ownership. The Companies Law also sets minimum capitalization requirements for joint stock companies.

(c) Sectoral treatment

Investment in areas not covered by Investment Law No. 8 are subject to Cabinet approval. Specific conditions also apply to some sectors. Thus, foreign investment in the petroleum sector is governed by concession agreements between foreign investors and the Egyptian General Petroleum Corporation (EGPC). Foreign investment usually takes place under a production-sharing agreement. The foreign company receives up to 40 per cent of the oil produced.

Insurance Law 91 of 1995 allows foreign companies to access the local insurance market after a five-year period (which the Government may waive). However, Law 91 limits foreign firms' participation to 49 per cent. According to provisions of Law 229 of 1996 and Law 3 of 1997, private investors including foreign firms can build and administer highways and operate airports under BOT arrangements up to 99 years.

(d) Authorization procedures

Under the Companies Law, the investor first applies to the General Organization for Industrialization (GOI) for an industrial license authorizing the establishment of a new production facility, then seeks approval from the Companies Department in the Ministry of Economy and Foreign Trade. The steps then taken are the same as for the formation of a local company. The incorporation process for companies governed by Law 159 was in principle significantly facilitated by the adoption of the Ministerial Decree 354 of 1996 which states that companies no longer need security clearance before registration. Furthermore, according to Ministerial Decree 178 of 1996, GOI services are provided free of charge and its procedure constraints alleviated. Investor's requests for the temporary release of production requirements and controls on listed imported inputs are processed within the same day. However, investors claim that the timetable is not always met.

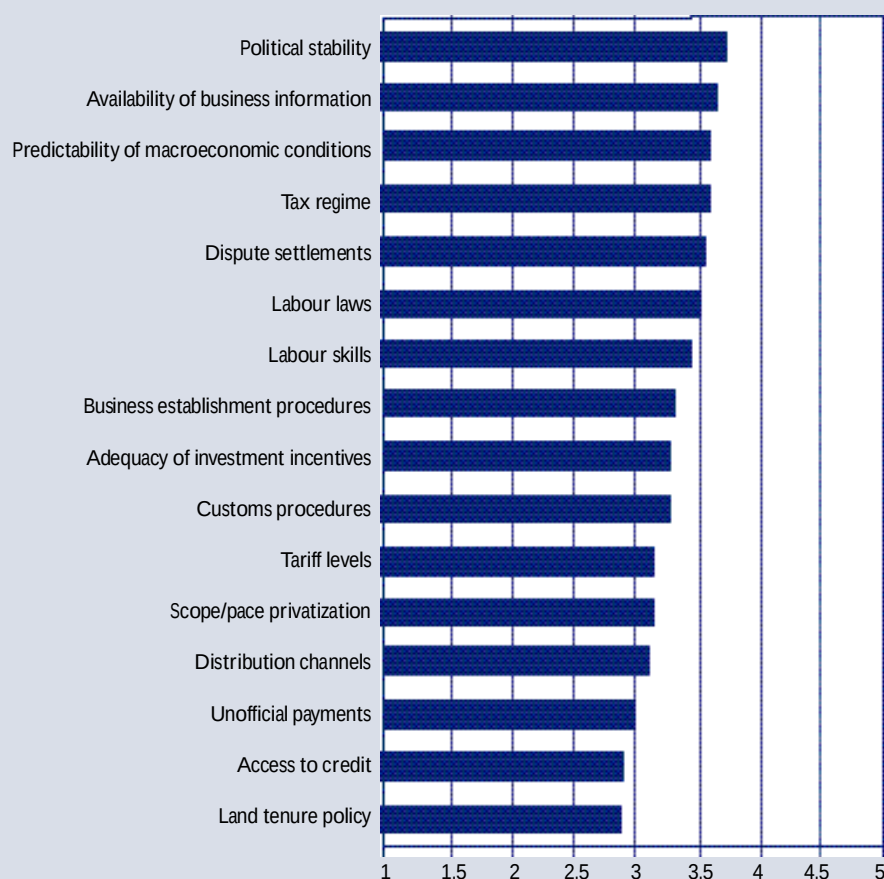
Under Investment Law No. 8, the General Authority for Investment (GAFI) automatically approves any request as long as the project is in one of the 16 sectors listed. The potential investor must submit a two-page "notification form", giving detailed information on the project's objective, location, capital, investment costs, Source of finance, labour and wages. According to UNCTAD's survey, it seems that GAFI is efficient at carrying out its procedures and meeting deadlines and that, under normal circumstances, the registration process can be completed within one week.

Box II.3. Obstacles to business establishment and operations in Egypt

Foreign investors operating in Egypt (see annex for full details) identified various obstacles to business establishment and operation.

For the majority of factors (13 of 16) a mean score of three or more was recorded, which indicates that there is room for improving the business climate, especially for establishment and operations, so that they can compete with other developing countries (figure II.1).

Figure II.1. : Obstacles to business establishment and operations in Egypt



Source: UNCTAD/ERF survey of foreign firms operating in Egypt, 1998.

Note: Average score, from 0 to 5 (highest rank)

(e) Free zones regime

Law 43 of 1974 provided for the establishment of free zones in Egypt. The provisions of this law were repealed by Law 230 of 1989. Provisions of Investment Law No. 8 of 1997 regarding free zones regime are identical to those of Law 230. All kinds of investment are authorized in the free zones. The Cabinet of Ministers is given the power to establish public free zones, following a proposal made by the competent administrative authority (GAFI). These public free zones are managed by a board of directors, with a chairman appointed by GAFI. GAFI also establishes the rules applying to the operations of free zones. Such free zones enable enterprises to operate with minimal regulatory and administration constraints.

The approval process was greatly facilitated for projects in the free zones, Investment Law No. 8 applications are routed through the board of directors of the relevant free zones, which are normally headed by the governor of the area where the zone is located. As of 1997, public free zones included Nasr City (Cairo), Alexandria, Port Said, Sohag, Suez, Ismailia, Damietta and Safaga.

Private free zones can be authorized by GAFI for a single project. GAFI may also designate any factory site a free zone (no longer for warehousing) if existing free-zone sites are impractical. Sites of already established projects can be declared private free zones by GAFI. However, the executive regulations of the Law stipulate that, inter alia, at least 50 per cent of production should be exported.

As a general rule, no performance requirements are set for foreign investors in Egypt, but some requirements may apply under Investment Law No. 8.

(f) Corporate governance and labour requirements

Under Companies Law 159, the majority of directors must be Egyptian and employees must be represented on the board. Investment Law No. 8 does not establish any requirement on the minimum percentage of Egyptian employees and GAFI has established its own manpower office to assist companies to obtain work permits for expatriates. Although Egypt's labour regulations are restrictive, enforcement is reported by foreign investors to be flexible in some areas, but termination of employment is still a lengthy and rigidly supervised procedure. Health and safety laws in the workplace are strictly enforced.

(g) Land ownership

Land ownership by foreigners is not explicitly forbidden by the Constitution, and is specified in the law. Law 15 of 1963 prohibits foreign ownership of agricultural lands, except for desert-reclamation projects. Law 143 of 1981 authorizes ownership of desert land by partnerships and joint-stock companies with Egyptian participation of 51 per cent. Companies incorporated under Investment Law No. 8 regardless of the level of foreign ownership, have the right to possess and own buildings and land as necessary for exercising and expanding their business. The law also enables the Cabinet to allocate State-owned land free of charge to investment projects. The construction of industrial facilities on agricultural land is banned and the Government has stopped issuing licences for new industrial projects in greater Cairo and Alexandria. Foreigners are allowed to own residential property, but some restrictions apply for historical sites and there is a maximum superfcy that can be bought by foreigners.

2. Investment protection

GAFI is the only authoritative body to provide guarantees to foreign investors.

(a) *Nationalization / expropriation*

Article 9 of the Egyptian Constitution and article 9 of Investment Law No.8 provide that companies and projects cannot be nationalized, confiscated or sequestrated administratively. Articles (8) and (9) of Investment Law 8 guarantee against nationalization or confiscation of investment projects falling in this domain. In addition, the law offers guarantees against seizure, requisition, blocking, confiscation, and placing under custody or sequestration and against full or partial expropriation of real estate and investment project property.

(b) *Repatriation of funds*

Egyptian legislation grants foreign investors the right to remit profits and to repatriate invested capital (Foreign Exchange Law of May 1994). Transfers are generally made in a freely convertible currency at the prevailing market rate of exchange on the date of transfer, with respect to spot transactions in the currency to be transferred. However, repatriation of capital under Law 159 companies is subject to some restrictions concerning the amount of capital transferred. Profit remittances are allowed without prior approval for both sorts of companies registered under law No.8 and 159. There are no restrictions on loan inflows, repayments and transfer of royalties and fees.

(c) *Settlement of disputes*

The domestic courts of Egypt are the competent judicial authority to settle investment disputes.

Egypt is also signatory to the following multilateral conventions relating to investment disputes: the Convention on Recognition and Enforcement of Foreign Arbitration Awards (adopted in New York in 1958), the Convention on the Settlement of Investment Disputes between States and nationals of other States (adopted in Washington, D.C. in 1965). Bilateral treaties also provide general guarantees against expropriation, and other investment risks, including repatriation of funds and international disputes.

According to Investment Law No. 8, investment disputes may be settled through conciliation, mediation and arbitration and through the domestic judicial system. This law also recognizes the right of investors to settle disputes within the framework of bilateral agreements, the Convention for Settlements of Disputes between States and nationals of other States (1971) or through commercial arbitration. In addition, these disputes may also be settled in accordance with the provisions of the Law of Arbitration in Civil and Commercial Matters promulgated by Law No.27 of 1994. Investors may agree also to settle any dispute by arbitration before the Cairo Regional Center for International Commercial Arbitration.

In addition, a committee for deciding on investors' complaints has been established by the Prime Minister in Decree no.64 of 1996. The Committee is under the Ministry of Justice and is composed of the Minister of Finance, the Minister of Cabinet Affairs and two businessmen designated by the Prime Minister for a period of one year at a time. The Committee is charged to solve disputes between investors and public authorities (ministries, departments, administration, local government units, etc.).

A key issue in settlement of disputes through arbitration is the execution of arbitral awards. If the arbitral award is issued in English, it must be officially translated into Arabic for execution in Egypt. In order to enforce a foreign arbitral award in Egypt, there are two laws under which it can be enforced, namely, Law No. 27/1994 on Civil and Commercial Arbitration and Law No. 13/1968 for Civil and Commercial procedures. The enforcement of an arbitral award is less difficult under the provisions of the Arbitration Law than under those of the Civil and Commercial Procedures. In the latter case, the procedures are equivalent to those of normal courts and can be appealed.

Eighty per cent of investment disputes were settled through arbitration since the Egyptian judicial system is considered slow and its procedures cumbersome.

3. Incentives measures

(a) *General regime*

Investment Law No. 8 introduces new incentives in the investment regulatory framework of Egypt, while maintaining those privileges already granted by previous laws or regulations. Earlier incentives and commitments granted by the Egyptian Government will terminate in accordance with their normal expiration date.

The incentives contained in previous laws and those introduced by Investment Law No. 8 are mainly fiscal and deal with tax breaks. The use of land and access to infrastructures in remote areas are dealt with in the same legislation.

The incentives mentioned in the Investment Law No. 8 are granted automatically and can be withdrawn only if there is a violation to the established conditions and rules. In such cases, exemption can be revoked only by a decree of the Prime Minister, at GAFI's request. Any company can appeal the decision to the Administrative Court.

Investment Law No. 8 exempts profits from the Tax on the Revenues of Commercial and Industrial Activities and the Tax on Stock Companies Profits for a period of 5 years (Section 3, art. 16) starting from the first fiscal year of activities. The fiscal regime applies to enterprises operating in any activity expressly listed in the law. However, a decision of the Cabinet of Ministers can extend the application of the law to additional sectors and activities not explicitly covered (Section 1, art.1).

For enterprises located in new industrial zones, new urban communities and in remote areas - which are determined by a decree of the Prime Minister and new projects financed by the Social Fund for Development, tax exemption can be extended for 10 years. The exemption period can be extended to 20 years for activities located outside the Old Valley (a Cabinet Decree determines the precise geographic scope of these areas).

A part of the paid-in capital (to be determined by the Central Bank) is exempt from corporate taxes, as well as returns on securities issued by enterprises registered on one of the stock exchanges. Mergers are entitled to continue enjoying exemptions granted before the merger took place.

Generally, foreign enterprises are given a free hand to import whatever machinery, components and means of transportation they need for their activities, with no requirement of registration in the Register of Importers. Machinery imported for new investment is subject to a 5 per cent rate. Companies can also export freely without registering with the Register of Exporters.

Table II.1. Matrix of investment legislation in Egypt, 1998

Category	General regime	Regime of exception
Covered areas	No restrictions by sector. (Law 159/1981)	Reclamation and cultivation of barren and desert land, industry, tourism, housing and real estate development. (Law 43/1974 as amended by Law 230/1989) To the above, the Investment Law No.8 added: Infrastructure (electricity, water and transport), oil services for digging and exploration operations; transport and delivery of gas; financial leasing, risk capital, and guaranteeing subscription to securities. Executive Decree included petroleum refining and cinema production.
Egyptian participation in equity	Minimum 49% equity to be offered by corporations for a period of one month to Egyptians	No Egyptian participation required
Capital and profit repatriation	Restricted	No restrictions
Foreign ownership of land	Restricted	No restrictions
Price controls	Possible	None
Exchange	Subject to controls	No exchange controls
Trade	Subject to licensing	No export/import licensing
Income tax holiday	50% tax relief on shares quoted on stock exchange Projects in "new communities" enjoy tax privilege of Law 59/1977	5 years 10 years for new industrial zones, remote areas and new projects financed by the Social Development Fund. 20 years for projects outside the Old Valley
Customs exemption	No customs exemptions	A unified rate of 5% on value of machines, equipment, instruments imported
Worker	10% of profit up to ceiling of one year's wages	At discretion of company participation in profit
Implementing body	Capital Market Authority	The General Authority for Investment and free zones.

Source: National legislation.

Table II.2 Strengths and weakness for FDI in Egypt

<i>Economic determinants</i>	<i>Factors</i>	<i>Evaluation</i>
Market	● Market size/growth potential ● Proximity to other nearby markets ● Strategic business location ● Potential return on investment ● Financial risk	✓ ✓ ✓ ✓ ✗
Cost	● Low cost labour	✓
Policy framework	● Generally friendly regulatory environment ● Preferential access to third markets ● Political instability ● Bureaucracy ● Investment and business establishment procedures ● Dispute settlements/judicial system	✓ ✓ ✗ ✗ ✗ ✗
Infrastructure framework	● Good physical infrastructure (ports, road, telecommunications) ● Qualified personnel	✓ ✗
Business support	● Linkages/partnerships ● Business information	✗ ✗

✓ Strengths
✗ Weaknesses

Source: UNCTAD survey of international investors, 1998.

Note: Strengths include factors ranked as competitive advantage by potential investors; weaknesses include factors ranked as obstacles to direct investment. See the methodology in the annex for further details.

Table II.3. Main characteristics of the legal framework for FDI in selected MENA countries, 1998

Fiscal regime	Egypt	Morocco	Tunisia	Lebanon	Turkey
Main investment legislation	Law No. 8 of 1997	Investment Code of 1995	Law 93-120 of 1993	No specific investment legislation	Foreign Investment Law No. 6224 of 1954 (as amended)
Constraints by sector	Law No. 8 lists 16 distinct fields, in which FDI may benefit from guarantees and incentives. Investment in Sinai, in military products/ related industries and tobacco/ tobacco products require prior approval. Any type of investment authorized in the free zones.	Private ownership is permitted in all but a few sectors reserved for the State (public utilities, rail and air transport and phosphate industry).	Foreign ownership is permitted in all but some sectors reserved to nationals.	All fields open to Lebanese private sector are opened to FDI with the exception of banking.	All fields open to Turkish private sector are opened to FDI
Ownership conditions	The Investment Law allows 100 per cent ownership. Investors in any sector not covered by the investment law, will operate under Companies Law 159 that sets minimum 49% equity to be offered for a period of one month to Egyptians	A part from sector reserved for the State, private entities may own 100% shares. may own 100% shares 50% local equity ceiling is set for FDI in insurance.	100% equity participation without permission, except in service sectors, where if FDI exceeds 50% equity participation, is subject to approval	Except in areas such as commercial representation, real estate, insurance and banking, foreign investors are allowed to own 100% shares	No limits on equity Participation for foreign investors.
Ownership of land	Allowed.	Allowed.	Allowed.	Acquisition of real estate property by foreigners is prohibited without prior authorization	Allowed. Unless acquired for real estate trading purposes.
Authorization procedures	No approval in areas specified by law No. 8.	No approval.	Approval required for services	No approval.	Approval is required.
Application procedures	GAFI shall verify the articles of incorporation and statutes of companies. Cabinet's approval in special fields is necessary. Commercial Registration is required.	Registration with the Central Bank's exchange Control Office is required.	Must notify the pertinent activity office. Previous authorization for few specific activities is required.	Applications should be submitted to the Ministry of Economy and Trade, and Register of Commerce.	Approval obtained by means of an application filed and requires submission of corporate documentation.
Operational conditions	No performance requirements.	No performance requirements.	Requirements set for petroleum and infrastructure.	No performance requirements.	Minimum capital requirement. Reporting requirement to GDFI every year.

Fiscal regime		Egypt	Morocco	Tunisia	Lebanon	Turkey
Corporate income-tax rate applicable to foreign investors		Normally 40%, lower rates apply for company engaged in industrial and export activities (32%).	The basic corporate tax rate is 35% but wholly foreign-owned pay 12 or 10% flat rate according to field of activity.	A flat-rate fiscal fixed at 20%. 35% reduction offered for all activities for income earned and reinvested covered by the Investment Code, 50% offered for activities in environment protection and support services. No matter the nature of exemptions, beyond 10 years of exoneration, a minimum tax rate of 10% is applicable.	Lebanese tax rates are low compared to other fiscal systems with a maximum income tax rate of 10 per cent.	The rate of tax is 46% and with the addition of some fund liabilities the effective rate becomes 49.22%. Corporate tax exemptions available to companies possessing an Incentive Certificate. The rates of the allowance vary between 30 and 100 per cent of total fixed investment depending upon location, sector and value of investment.
Fiscal incentives						
Tax holidays		5 years for most industrial projects. 10 years tax holidays for projects in Industrial Zones, urban communities and remote areas and Social Fund Projects. 20 years for companies establishing outside the Nile Valley and in the New Communities	Preferential treatment to exporting companies in the form of full exemption from corporate income tax for 5 years and reduces the tax by 50% thereafter on profits from exporting.	Companies producing at least 80 per cent for the export market, companies located in regional development areas, as well as agriculture development projects receive full tax exemption on reinvested profits and revenues.	Exemptions to: revenues from dividends distributed by holding and offshore companies; interest on all current and savings accounts; profits derived from transfer of corporate shares, non-profit organizations; companies located in industrial zones, producing goods not produced locally before 1980; company with assets exceeding 500 million Lebanese pounds.	VAT exemption is applied to imported and locally purchased investment goods. Investment credits and capital payments are exempted from stamp duties and fees if US\$ 10,000 export is committed upon the completion of the investment.
Accelerated depreciation		Normal straight-line method. Rates are negotiated with tax authorities. Right to depreciate manufacturing machinery at the rate of 25% in the first year as a one time extra.	General revenue tax concerning decreasing depreciation are maintained for capital goods for 10 years.	Optional depreciation schedules for production equipment.	The normal straight line method is used , and rates vary between 5 and 20 per cent.	n.a.
Investment and reinvestment allowance		Yields from evaluation of shares in kind used for establishing corporations or increasing their capital, will be exempt from tax on commercial and industrial	A registration duty of 0,5 % will be applied to increase in company capital on the occasion of the constitution of the company or the capital increase.	Full tax exemption on reinvested profits and revenues for companies exporting at least 80 per cent.	Companies using operating profits to finance capital investment are exempt from up to 50 per cent of income tax liabilities for up to 4 years provided that the exemptions do not	n.a.

Fiscal incentives	Egypt	Morocco	Tunisia	Lebanon	Turkey
Deductions from social security contributions	The employer's contributions are deductible for corporate tax purposes while employee contributions are deductible from gross salary.	n.a.	n.a.	Maximum 35 per cent of basic salaries.	n.a.
Specific deductions on gross earnings for income tax purposes or reductions in other taxes (e.g., VAT)	No excess-profits or alternative minimum tax. Distributions of profits (dividends) are not taxed.	Capital goods, raw materials and tools are exempted of VAT, both internally and at the point of import.	Suspension of VAT and consumption tax on imported equipment when no similar equipment manufactured locally. List of eligible equipment established by decree	All companies located in the four free zones will be exempt from a 10-year corporate tax holiday.	50 per cent deduction on energy payments for the investments in some priority regions.
Exemption from import duties	Investment projects pay a flat 5% duty on imports of capital equipment and machinery.	Reduces duties from minimum 2.5% up to 10% on imports of raw materials and equipment.	Full exoneration from custom duties for wholly exporting projects	Imports duty are very low (6 per cent). Hotel equipment are exempted provided the operating period is for at least 10 year. Import of buses for tourism exempted.	Duty exemptions are granted to imported investment goods.
Other exemptions	♦ payment of inheritance tax on 25% of heirs' share. ♦ income tax on a proportion of dividends after expiration of exemption fees.	♦ total exemption of deeds of purchase of land provided the project is completed within a year ♦ 50 per cent reduction on deeds of land purchase for property development	n.a.	Incentives for industries with technological transfer in the free zones	♦ exemptions from building and construction taxes
Granting procedures	Automatically granted	May be subject to negotiation	May be subject to negotiation	Automatically granted	Granted after evaluation.

Source: National legislations.

According to the provision of Investment Law No. 8 no administrative authority can interfere on pricing policies or profits.

(b) *Export related incentives*

Profits and dividends of public free zone projects are exempted from Egyptian taxes, and are subject only to an annual fee of 1 per cent of the value of goods upon exit from the free zones, or 1 per cent of the total revenues realized in services projects. For storage or warehousing projects, a duty of 1 per cent is levied on the c.i.f. value of goods stored. Also, imports used for production in the public free zones are not subject to the general taxation regime and are exempted from any duty or tax. Imports from the free zones are regulated by the general rules for imports from abroad, and customs taxes are levied on goods imported from a free zone to the local market as if they had been imported from abroad. Also free zones are exempted from the application of certain labour legislation.

Free zones are constrained by minimal regulations and are managed by a board of directors, with a chairman appointed by GAFI. GAFI also establishes the rules on the basis of which public free zones will conduct their operations. Free zones are open to any type of investment, but priority is assigned to activities promoting exports and to high-tech industries. Goods produced in public free zones and exported are not subject to customs, general sales, or other types of tax. Maritime transport projects and ships operating in free zones are not subject to the legislation concerning maritime trade and the registration of merchant vessels.

(c) *Regional development incentives*

New urban communities were established under Law No. 59 of 1979 with the objective of promoting the development of specified geographical regions. In addition to tax breaks, projects located in the relevant regions are exempt from all tax on property for a 10 year period and can benefit from subsidized public utilities.

Investment Law No. 8 has facilitated and simplified the entry and establishment for foreign investors in Egypt, but investment in some areas is still subject to Cabinet approval. Although approval procedures were intended to provide a more liberal approach, notably by enlarging the field of activities open to FDI, some investors feel that it may in fact introduce a discretionary power and a lack of transparency in the investment regime.

Automatic approval granted by Investment Law No. 8 is consistent with the “free entry” investment approach, while other countries in the MENA region still have restrictive investment screening mechanisms in place.

The general regime maintains some restrictions to FDI. Companies registering under Companies Law 159 face limitations concerning ownership and management, and have to seek approval from different departments. Recently, the registration process has been facilitated but changes were introduced by a number of different decrees without establishing a comprehensive and consistent reform of the business incorporation procedures.

As with other countries in the MENA region, Egypt offers tax incentives and customs duty exemptions for FDI projects, as well as a special regime for the free zones. But some other countries offer in addition incentives for project expansion, and research and development, and financial incentives in the form of grants. Investment Law No. 8 has simplified the incentives regime and incentives are automatically granted. While guarantees have been consolidated by Investment Law No. 8, dispute settlements, when not solved through conciliation and/or international arbitration, have to go through the Egyptian judicial system, where cases may take years to settle and are automatically appealed. It is the same with arbitration awards which are not enforced in the country. In any case, the judicial civil system needs to be reformed.

C. Other policy issues

1. Fair market practices

(a) *Competition policy*

The Egyptian Government is in the process of enacting a competition law. The current working draft includes provisions prohibiting anti-competitive agreements (cartels, etc.) and abuses of dominant position. A non-exhaustive list of examples of anti-competitive practices is provided in the draft. Also, mergers and acquisitions creating dominant positions are subject to advance notification and review. They could be prohibited and, if necessary, partial divestiture imposed. The draft law would establish a competition agency responsible for the enforcement of the provisions of the law.

The adoption of the competition law and the establishment of the competition enforcement agency are expected to play an important role in promoting a more competitive and freer environment for both domestic and foreign enterprises operating in Egypt. In fact, there are still many sectors where regulatory and legal barriers as well as enterprises' anti-competitive practices appear to bar outright or make the entry of new domestic and foreign firms very difficult and costly. In this connection, the competition agency could exercise a multiple role, including the removal of anti-competitive practices, advising the government on policy issues, and monitoring enterprise behaviour in specific sectors.

Enforcement by the competition agency would also promote closer integration of the country's economy into the international trading system, by removing artificial fragmentation of the national market due to anti-competition business practices. Concerns regarding cross-border anti-competitive activities are also addressed in the free trade agreement currently being negotiated between Egypt and the European Union (part of the so-called Euro-Med Agreements). In the draft agreement several provisions refer specifically to competition policy: anti-competitive agreements and abuses of dominant position are declared incompatible, insofar as they affect trade between Egypt and the European Union. The agreement would institute a formal and close co-operation between the competition authorities of the signatory parties. In the light of most accepted practices in established competition agencies, the following recommendations could be made.¹²

- ◆ The importance of the competition advocacy statutory role exercised by competition agencies vis-à-vis the Government and the Parliament in most jurisdictions.
- ◆ The growing trend in most jurisdictions to apply competition legislation to all entities engaging in economic activity, with any exception as circumscribed as possible.
- ◆ The effectiveness of competition agencies in fostering a competitive environment is very much a factor of the degree of independence from political interference.
- ◆ Time limits are usually fixed for proceedings, specifically for review of mergers. They can be extended if the firms do not provide all relevant information.

Competition and efficiency of the public utilities play an important role in attracting FDI into all sectors of the economy. Thus, the competition agency could also be expected to play a key role in privatization schemes when exercising its merger review attributions. It would notably contribute to ensuring that the transfer of ownership to the private sector would not lead to private monopoly practices.

As stressed above, competition agencies need to ensure a transparent, fair and rapid process when

¹² UNCTAD is providing technical assistance to the Government of Egypt. A workshop to discuss the draft law was organized in Cairo in April 1998.

investigating, prosecuting and adjudicating anti-competitive practices. Particularly, when reviewing mergers and acquisition, it is important to establish stringent time deadlines. A non-transparent and time-consuming review process, in fact, might discourage FDI.

(b) *Environmental policy*

The Government of Egypt and the public are slowly acknowledging the need for environmental protection, which has an impact on policies. The action plan designed in 1992 paved the way for the adoption of the Environmental Conservation Law of 1994. The law amalgamates Egypt's existing Clean Air Act, Marine Environment Act and the Penalties Act, while adding new sections on hazardous waste and environmental management.

Of particular interest is the law's provision for a mandatory environmental review as part of the approval process for all proposed investment projects. However, as Investment Law No. 8 does not mention the subject, some difficulties may arise with regard to the implementation of the environmental review amid efforts to reduce the time span of the establishment process. Based on an initial environmental assessment, the Egyptian Environmental Affairs Agency has, according to the law, 60 days within which to formulate an opinion and the prospective investor has 30 days in which to appeal the decision. Investors are also required to document the impact of their projects on the environment through a series of self-assessments, made after the start-up, and throughout the whole life, of their projects. The procedures are set in the law's executive regulations (Prime Minister's decree 338 of 1995, enacted on 18 February 1995).

2. Technology policy

Until its "open door" policy, the Government of Egypt had a restrictive policy on the importation of technology. However, Law No. 43/1974 provided the basic legislative right for the Government of Egypt to authorize, on a selective basis, technology transfer through joint ventures. Thereafter technology was one of the main factors taken into account when evaluating applications for investment projects. Evaluation was based on the kind of technology and training to be given in its use, the machinery and equipment to be imported, employment by category and nationality, and the impact on the balance of payments of technology importation. With the trend towards liberalization of investment regulations in Egypt, greater reliance was inevitably placed upon market mechanisms and the provision of a supportive internal environment for technology transfer.

Of major importance is the regime for the protection of intellectual property rights. Patent protection in Egypt has been based on Patent Law No. 132/1949 which provides a standard term of 15 years from the date of application (compared with the international norm of 20 years) and includes broad provisions for compulsory licensing. Exceptions are made for pharmaceutical and food products for which the patent period is 10 years. Aside from the short patent terms, one potential problem relates to the fact that the law's definition of infringement does not include the use, sale or import of a product using a process patented in Egypt, if the Egyptian law precludes patenting of the product itself. Such a situation creates some uncertainty regarding the effectiveness of patents protection. A new patent law that meets international standards has been drafted, but it will not be introduced before 1 January 2000, which meets the terms stipulated in the TRIPs agreement of the Uruguay Round, allowing a 10 year period for the implementation of protection of pharmaceutical products.

Egypt is a signatory of major international patents, trademarks and copyrights conventions. However,

copyright piracy, in particular video and audio cassettes and disks, medical textbooks and computer software, has been acknowledged as a problem both by business circles and the Government. As a consequence, Egypt has been on the United States 'watch-list' and 'priority watch list' of countries with inadequate intellectual property protection set out in Section 301 of the United States Trade Act of 1988. The protection of trademarks and industrial designs and models is a less crucial issue, although enforcement is weak and the courts have little experience in handling infringement cases.

Science and technology policy in Egypt is the responsibility of the Ministry of State for Scientific Research. Attached to the Ministry are 14 research centres and institutes, the largest being the National Research Centre that employs 6,000 people. As seen in chapter I, an evaluation of Egypt's science and technology (S&T) system highlighted a number of weaknesses including inefficient management structures, inadequate resources, weak links between R&D institutions and industry, ineffective and non-motivating funding policy, and relative isolation of S&T institutions from the national socioeconomic development activities (Egyptian Ministry for Scientific Research, "Final Overview Report for Project on Improving the Science and Technology Policy and Management in Egypt", 1997). While foreign funds were substantial, they need to be coordinated to maximize the benefits to Egypt in areas of technology transfer. Strategic action areas identified included the following:

- ◆ Supporting innovation, competitiveness and marketing as a basis for an export strategy, e.g. removing legal, financial and other obstacles that hamper direct investment; providing tax incentives for private sector investment in R&D; and redressing weaknesses of the patent system, particularly by strengthening enforcement mechanisms.
- ◆ Accelerating technology transfer and enhancing international cooperation e.g. establishing joint ventures, through international economic cooperation agreements, aimed at technology transfer to Egypt and the training of Egyptian scientists and engineers.

3. Trade policy

Egypt was a member of GATT and thus participated in the negotiations leading to the Uruguay Round Agreements. It joined the World Trade Organization (WTO) in June 1995. In joining WTO, Egypt made few liberalization commitments and mainly limited itself to locking-in past liberalization measures and making its system rules-bound and transparent. Agreement was, however, reached to eliminate quantitative restrictions on textiles and clothing and on poultry. Access to markets in industrial countries was not much improved, except through the phasing out of the Multi-Fibre Arrangement where quotas should be eliminated by 2005, though tariffs will remain fairly high in Europe and the United States. Import tariffs generally in Egypt are high and sometimes have a negative impact on exports. Non-tariff barriers to trade in many services reinforce the anti-export bias since they constitute, in most cases, an important input of production.

In respect of their comparative position, tariff rates are high and variable in most southern Mediterranean countries: for example, maximum tariff rates in most sectors were 40 per cent in Morocco, 43 per cent in Tunisia, 60 per cent in Algeria and 40 per cent in Egypt. Average tariff rates in Egypt were also at the top end of countries within the region until a sharp tariff reduction was introduced in 1998.

Tariffs reductions and exemptions have been granted for intermediate and capital goods, while rates remain high in food, beverages and tobacco and in some manufacturing industries such as textiles and leather, and automobiles. Protection and tariff rates for automobiles, have encouraged FDI in cars' assembly.

Although most outright import bans have been eliminated, the Egyptian Government has implemented some new measures which raised concern among investors. Decree 619 requires that all consumer goods be imported directly from the country of origin. Decree 579 and 580 stipulated that automobiles must be imported in the year of their manufacture.

Import transaction costs in Egypt are high. These include cumbersome drawback and rebate schemes, expensive port and air cargo services, cumbersome import clearances, and a restrictive quality-control system. Export transaction costs are not as problematic as those on imports because the Government has determined separate charges for exports at an internationally competitive level and has eliminated nearly all quality restrictions.

In respect of other areas of the Uruguay Round Agreements, Egypt's commitments to the General Agreement on Trade in Services (GATS) represented a locking-in of the statu quo. In relation to the trade related investment measures (TRIMs), Egypt had already eliminated some local content requirements in 1994, but certain industries still require local content of up to 60 per cent to qualify for customs duty reductions. This is clearly a barrier to investment in Egypt, given the import requirements of foreign investment in the early years of operation. However, these will need to be eliminated over a five year period to comply with TRIMs rules.

If TNCs are to be encouraged to play a role within regional trade, for example, the MENA region, or preferably the Mediterranean region since this includes higher income European Union countries - regional trade agreements become even more important. Egypt has a preferential trade agreement with the European Union which commenced in 1977 and has been extended through a series of protocols. Essentially, the agreement gives Egypt's raw materials and industrial exports free access to the European Union market, except for strategic products such as textiles and clothing

The obligations set up in the agreement are not reciprocal and the European Union's exports to Egypt receive only most-favoured-nation treatment. The desire to expand the European Union's political and economic relations with the Mediterranean countries led to the launch a European-Mediterranean Partnership in November 1995. This is designed to create a free trade area and economic and financial cooperation among the 27 partners (including 12 Mediterranean countries) by 2010. Five agreements have been reached - with Tunisia, Morocco, Israel, Jordan and the Palestine Authority - and that with Egypt is one of several currently being negotiated. The principal elements of the European-Mediterranean agreements are similar: industrial exports from the partner country will still have duty free access to the European Union, while duties on industrial exports from the European Union to the partner country will be phased out over 12 years; the European Union is expanding the opportunities it gives to agricultural exports from partner countries; a range of rules and regulations will be harmonised with the view to stimulate trade.

A European-Mediterranean Partnership offers significant opportunities to Egypt (and in a comparative sense ensures that the country is not disadvantaged compared with neighbouring countries which have already signed Partnerships) and current negotiations are likely to reach a successful outcome shortly.

Aside from these initiatives, some preliminary consideration has also been given to the possibility of an Egypt-United States Free Trade Agreement, but it seems unlikely that this will progress given the current slow progress of the Middle East peace agreement.

From the perspective of attracting TNCs, freer trade among the Arab States themselves should also be a priority. At present, Egypt's exports to the rest of the Arab World represent only a small proportion of the total. The League of Arab States agreed in February 1997 (Council 917) on a plan for the creation of a Free Trade Area comprising 11 States (the United Arab Emirates, the Hashemite Kingdom of Jordan, the Arab

Republic of Egypt, the Syrian Arab Republic, the Republic of Iraq, the Socialist People's Libyan Arab Jamahiriya, the Islamic Republic of Mauritania, the Republic of Yemen, the Palestinian Authority, the Republic of the Sudan and the Somali Democratic Republic) to be established within 10 years from 1 January 1998: tariffs will be liberalized through a 10 per cent reduction each year and a special committee is to be responsible for the implementation and dispute settlements. This agreement clearly needs to be coordinated with others such as the seven countries (the Arab Republic of Egypt, the Syrian Arab Republic, the Republic of Iraq, the Hashemite Kingdom of Jordan, the Socialist People's Libyan Arab Jamahiriya, the Islamic Republic of Mauritania and the Republic of Yemen) of the Arab Common Market which was initiated in 1964 but made little progress and which was reactivated in 1997.

In November 1997, Egypt joined the Common Market of East and Southern Africa. It is expected that the country's trade within this regional area will increase to around US\$ 1 billion by removing trade barriers. Regional investment should also be encouraged to secure stronger ties with African partners. Egypt is also strengthening economic ties with the South and is a prominent member of the G 15 and the D 8 groups. A number of new initiatives in the areas of trade and investment are being considered by these groups.

Export-oriented TNCs could have a major role to play in generating faster and more sustained economic expansion in Egypt, but attracting such TNCs in the first place requires trade access to overseas markets, a regulatory regime which does not discriminate exports, and reductions in transaction costs for exports. Parallel improvements are required on the import side given that TNCs will also be significant importers.

The review of competition, technology, environment and trade policies shows that, in certain areas, the reform process has proceeded at a different pace. Competition, environment and technology policies are still being designed in certain areas. In trade, there is still the need to simplify import and export procedures, and to pursue the integration process at the regional and international levels. The cornerstone of such policies consists of designing a coherent strategy and appropriate initiatives in all these areas.

D. Role of the institutions

Investment Law No. 8 has simplified to a certain extent the mechanism for investment entry and has also brought under the same authority investment activities within the domestic market and those taking place in the free zones. However, in Egypt there are still a number of governmental authorities responsible for issuing certificates, licences, and authorizations. The main regulatory agencies in charge of investment projects are:

- ◆ General Authority for Foreign Investment (GAFI)
- ◆ General Organization for Industrialisation (GOFI)

Figure II.2 shows the procedures for establishing an investment project in Egypt. It also reveals that there are many regulatory agencies in Egypt with an involvement in investment projects, although the principal ones are the General Authority for Foreign Investment (GAFI) and the General Organization for Investment (GOFI).

In the past, the activity of GOFI has been mainly to grant business licences and register and monitor industrial investment in Egypt. The mandate of GOFI is in the process of being reoriented towards identification of projects and opportunities, and enhancing the cooperation between technical institutes and industry. Until January 1996, GAFI was a regulatory body. Its size - GAFI has approximately 1,400 employees with branch offices throughout Egypt - was justified by the regulatory role the agency assumed when GAFI created. Since its tasks were reduced by Investment Law No. 8, attempts have begun to transform GAFI into a facilitating and promoting body for FDI.

Despite this redefinition and restatement of GAFI's role, Egypt's Civil Service Reform Secretariat is working on plans for a new body and structure, which could involve investment service offices ("one-stop shops") at the governorate level. These would be staffed by project officers with responsibilities for pre-established information and contacts, the facilitation of permits and clearances, and post-establishment information and contacts. Key blockages have been identified, together with possible solutions. These blockages affect mainly company incorporation & registration, land allocation, building permits and operating licences.

Because of the changes taking place, it is difficult to compare Egypt with its Mediterranean neighbours, either in terms of the functions undertaken by investment agencies or their performance (the time period for project approval is a benchmark). A framework of the functions of GAFI and equivalent agencies in other countries is presented in table II.4. While such agencies still have a regulating role, the priority for attracting FDI is the time scale for project approval. The recent changes in Egypt are moving in the right direction, but the procedures could be streamlined. The time-scale for approval is linked to the tasks of the authorizing body. Would the agency concerned have the sole authority of approval ("one-approval-shop") or are multiple approvals necessary? In the latter case, setting up a "one-stop-shop" would be very helpful.

There is a trend to reorient the investment agency from regulatory to promotional tasks. The latter task could be more developed by GAFI. It is the same with after-care services, which require an understanding of TNC strategies and operations by the investment agency.

Investment promotion in Egypt and in most Mediterranean countries is still at the early stages of development. More sophisticated strategies and marketing programmes are needed. At the regional level, a number of initiatives have been taken in different forums (Euro-Med, Mediterranean Forum) to launch an "Invest in the Mediterranean" plan. Such initiatives could be part of a comprehensive regional development plan to attract FDI. In the Mediterranean countries, such a plan would be beneficial to all partners.

E. The international framework

Egypt has been very active in promoting bilateral investment agreements. By 1997 it had concluded bilateral investment treaties with 43 capital exporting countries, more than any other country in Africa. Thirteen of these treaties were concluded in the 1970s or before, 6 in the 1980s and another 24 in the 1990s, evidence of the country's consistent policy to provide guarantees and incentives for investors from an increasing number of countries. About one third of these treaties are with OECD countries, 10 are with Arab countries and the rest are with economies in transition and with Argentina, China, Ecuador and Indonesia.

Egypt also has a leadership role in regional forums. It is a party to a number of regional conventions (11 in total, mainly with other Arab States) related to investment and its protection; and has concluded tax agreements with 23 States regarding double taxation and tax evasion.

This leadership also reflected at the multilateral level. Egypt is also a signatory to the following multilateral conventions relating to investment: the Convention for the Protection of Industrial Property (adopted in Paris in 1883 and amended in 1979), the Convention on Recognition and Enforcement of Foreign Arbitration Awards (adopted in New York in 1958), the Convention on the Settlement of Investment Disputes between States and nationals of other States (adopted in Washington, D.C. in 1965), and the convention establishing the Multilateral Investment Guarantee Agency (MIGA, adopted in Washington, D.C. in 1985). The participation of Egypt in these international conventions gives TNCs confidence that the Government of Egypt is willing to provide them with adequate protection for intellectual property rights, to admit the enforceability of international awards and to guarantee appropriate insurance coverage against non-commercial risks.

Table II.4 Foreign direct investment agencies: comparison of selected countries in the MENA region, 1998

	Egypt	Lebanon	Morocco
Name of major agency	GAFI	IDAL	FID
Type of organization: governmental / quasi-governmental / private	Governmental	Governmental	Governmental
Time scale for project approval Investment promotion & attraction	Within a week	Very flexible	Variable
• Promotion offices abroad	Through Embassies abroad	Through tourism offices abroad	Washington and New York
• Country / sector targeting	yes	no	yes
• Missions abroad	Some special agreements with selected countries (e.g. Italy, Denmark)	Egypt, Saudi Arabia, Germany, United Kingdom	United States
• Exhibitions shows	yes	yes	yes
• Direct marketing	no	no	yes
• Advertising abroad	no	yes	yes
Promotion inside the country			
• Presentations/information	yes	yes	yes
• Site visits	yes	yes	yes
• Pre-start services	yes	yes	yes
After-care services	no	no	yes

Source: UNCTAD survey, 1998.

Egypt's membership in the WTO in June 1995 also provides a number of additional advantages to investors related to international trade transactions. Egypt is not required to introduce any specific legislation to conform to WTO rules, except for a new patent law.

Egypt, as a member of the international community, has played a leading political role in the Middle East not only but also in Africa. In the investment area, Egypt has also been active as reflected in its participation in a number of international and regional agreements. In fact, the country has adopted a bilateral, regional and multilateral approach to trade and investment liberalization. These commitments will also support and facilitate the domestic reform process.

F. Overall assessment

The Government of Egypt is making an effort to set an adequate investment regulatory framework and it shows a commitment to improving its business environment. The streamlining of investment entry procedures by the Investment Law No.8 is a positive step, but there is still room for improving business establishments. Other benefits of the new investment framework include the simplification of the incentives regime which are now automatically granted, if conditions are met, and guarantees protection offered to foreign investors. Unfortunately, the investment framework remains patchy and could be improved and rationalized towards the establishment of an equal level playing field for both foreign and domestic investors.

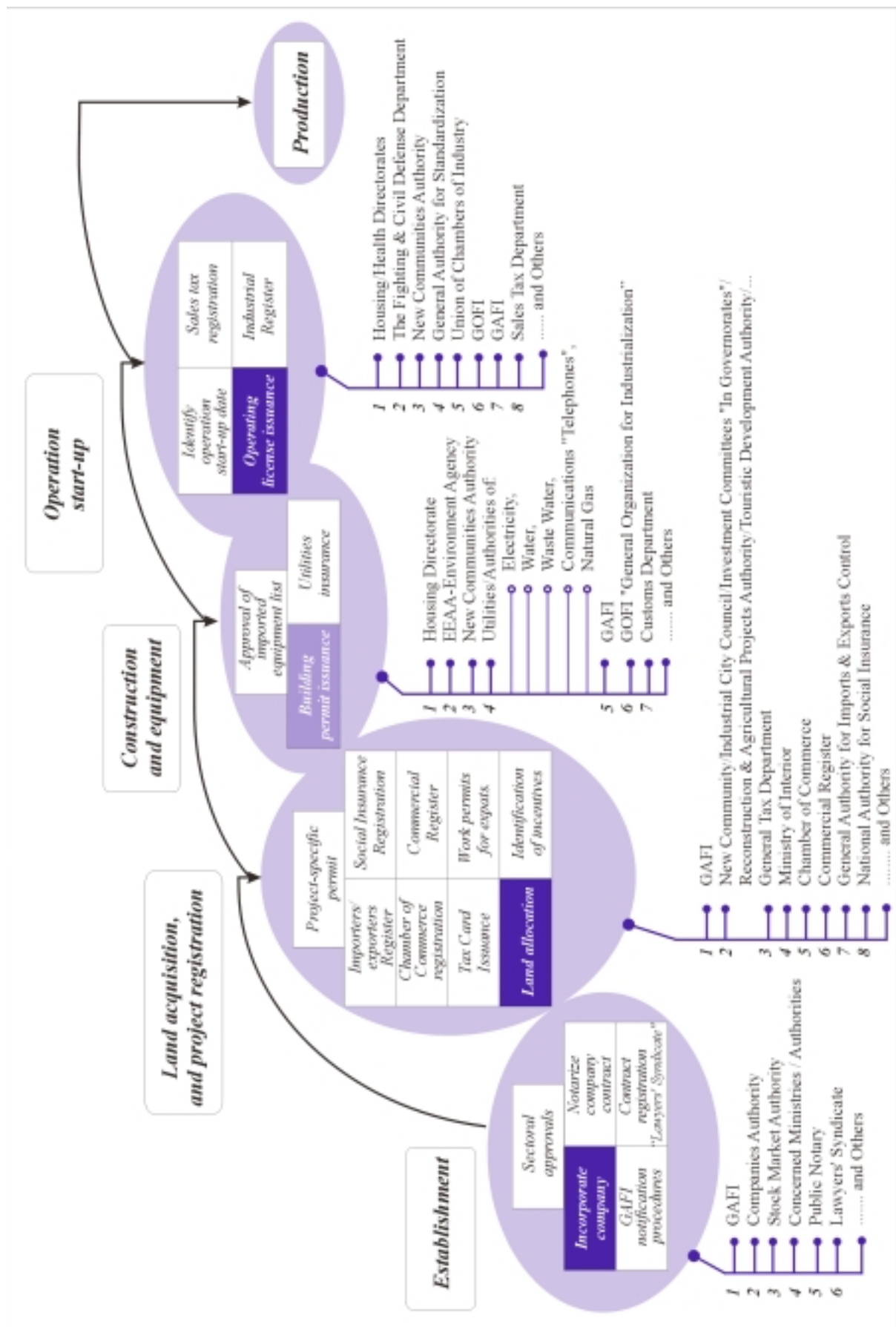
In principle, foreigners are entitled to the same legal treatment as nationals under the Investment Law No. 8 of 1997. Notwithstanding the general principle of national treatment granted by this law, some restrictions still exist under the general regime. In addition, investors' perception of the privatization programme remains somewhat sceptical, although privatization guidelines claim to grant foreign investors national treatment. Some investors have expressed concerns over the State's commitments vis-à-vis Arab investors and by some public officials who have indicated a preference for Egyptian investors, followed by other Arab investors, and then foreign investors. There is a concern that the regional integration process within the Arab States, related to trade but also aiming to adopt a common investment policy in the future, would consolidate preferential treatment to Arab States.

Other areas where improvements could be made relate to some aspects of FDI treatment, such as trade and custom procedures, taxation and accounting, the judicial system, patents' protection and competition and environmental policy.

When examining the regulatory framework, it is important to take into account foreign investors' assessment of the main difficulties in operating in Egypt. For example, the complaint by the private sector, whether domestic or foreign, centres on how the tax system is implemented rather than on the effective rate of taxation. The tax administration operates under a ruling that requires all businesses to be audited every year. This is a heavy burden on companies in terms of time and money and resolving annual tax payments can take years. Moreover, the process is heavily dependent on the assessment of tax auditors. The complexity of the tax regime is a major constraint for corporations, notably for those that have units that are operating under different tax incentive schemes e.g. with one factory operating in a free zone and another in Cairo. Not only do foreign investors have a difficult time in estimating their tax liabilities in any year, but tax disputes can take up to 10 years to be resolved. It is not enough to introduce legal reforms if the administration is not efficient.

Egypt has signed some cooperation agreements at regional and international levels. These agreements do not only imply commitments on the side of Egypt, but they also open a range of opportunities for TNCs to produce in Egypt and to sell worldwide. If the investment framework is not able to meet the more exacting requirements for locating export-oriented and intra-industry activities in Egypt, the country will be missing a golden opportunity to integrate into the global economy and host competitive enterprises with regional and global networks. With some more effort devoted to improving its investment regulatory and institutional framework, Egypt can and should become a gateway to European and Middle Eastern markets.

Figure II.2. Business establishment in Egypt, 1998



Source: Civil Service Reform Secretariat, 1998.

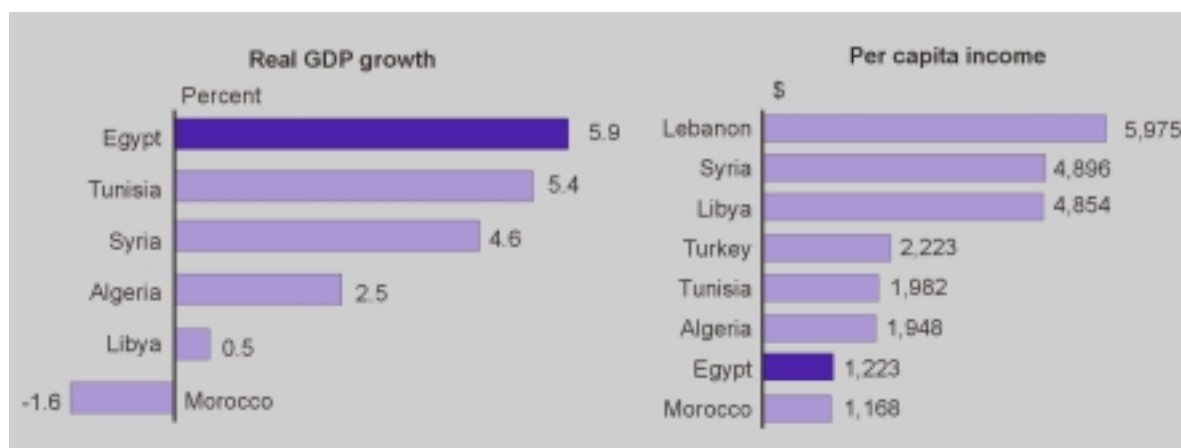
III. Foreign direct investment strategy

Egypt's FDI strategy should build on the country's competitive strengths, but also aim to attract new types of investment that will enable Egypt to better integrate into the global economy.

A. Egypt's attractiveness for FDI

Egypt has several strengths: natural resources, a large economy and proximity to regional markets. Other developing countries are similarly endowed (see figure III.1), including countries in the region. However, the Egyptian economy is growing at the highest rate in the region.

Figure III.1. Real GDP growth rates and per capita income in southern Mediterranean countries, 1997
(US dollars and percentage)



Source: International Monetary Fund, 1999

Egypt's large domestic market is a magnet for FDI. Although per capita income is relatively modest and lower than other Southern Mediterranean (US\$ 1 223 in 1997), Egypt's population of nearly 60 million is substantial enough to attract major producers of consumer and industrial goods.

Egypt also has a wide industrial base which extends from labour-intensive industries (some textile and garments, food processing and agribusiness and tourism) through technology-intensive industries (pharmaceuticals and cosmetics), to energy-intensive industries (steel, aluminium, cement and fertilizers). There are also a number of small but emerging high-skill service industries such as financial services and software development.

Among other principal advantages offered by Egypt are a large competitively priced labour force and competitive maritime and air freight rates. While costs vary considerably by industry, average data provide a rough comparative measure of cost competitiveness (see table III.1). Thus, the cost of electricity (measured as the kilowatts per hour that a dollar buys) is competitive with other countries. Similarly, telephone tariffs are very competitive for local calls and monthly business subscriptions (but the cost and delay in installation of a business line may be a disadvantage).

Wages are significantly lower in Egypt than in other countries: only a quarter of the wage rate in Turkey, a third of the rates in Tunisia, Malaysia and Thailand and half the rate in Morocco. However, the productivity of workers in these countries is also commensurately higher. Nevertheless, the US\$ 3 daily wage rate of the Egyptian labour force is competitive for capable and trainable workers.

Table III.1. Egypt's cost competitiveness, 1995
(US dollars)

Factors (1995)	MENA region				South-East Asia		
	Egypt	Morocco	Tunisia	Turkey	Indonesia	Malaysia	Thailand
Annual average wage (include bonus)	1 971	4 144	5 658	8 571	1 021	4 903	5 389
Productivity: gross production/worker	22 416	33 570	54 677	90 992	20 472	71 398	58 577
Productivity: added value/worker	7 047	11 282	17 474	40 744	8 067	18 475	20 689
Electricity: KW hr/US\$	1.44	0.44	0.45	0.41	0.32	0.63	0.58
Shipping costs (US\$ 000)							
US\$/40ft.container USA	1.8	n.a.	3.2	2.2	5.0	4.8	4.8
US\$/40ft.container EU	1.1	n.a.	n.a.	1.5	2.8	2.7	2.8
Telephone tariffs US\$							
Local call	0.01	0.09	0.07	0.06	0.05	0.04	0.12
Monthly subscription	1.8	6.0	2.7	3.1	13.8	13.9	3.9

Source: UNIDO, *World Report*, 1997.

Egypt is well endowed with natural resources and an attractive investment location for petroleum, energy and agricultural projects. Availability of land, and of serviced land, is also considered by international investors to be one of Egypt's strengths.

Investors interviewed in the UNCTAD survey score Egypt positively on rankings linked to capital costs and labour supply (cost, availability and productivity). However, investors view other business costs as a disincentive to FDI. In fact, factor cost advantages are offset somewhat in certain industries by various constraints on business operations which tend to lower productivity and raise costs, directly or indirectly. Some of these impediments (e.g. lack of a predictable regulatory and fiscal framework) are soft constraints and amenable to policy correction.

Doing business in Egypt is taken in stride by large investors, particularly companies that have multiple operations in the developing world. Observations by company executives located in Egypt stress the neces-

sity of strong financial support from parent corporations; the danger of expecting too much too quickly; and overall, therefore, the requirement for a long-term commitment.

Overall, Egypt ranks first in Africa when it comes to market growth (1996-98 index of the Africa Competitiveness Report). Egypt's market growth prospects are also ranked high globally (by the World Competitiveness Report), just after China, Malaysia, Chile, Brazil and Portugal, and ahead of all other countries of the WANA¹³ region.

UNCTAD's survey of business executives also shows that foreign investors hold positive expectations of potential market growth in Egypt (see box III.1). These expectations relate to the internal market as well as to the wider regional market. Export-oriented investment, however, ranks second to domestic market-seeking activities in the future investment plans of firms. As one of the positive indicators of the restored confidence in the business climate in Egypt, investment expansion plans are set for a significant increase in the next five years (table III.2).

B. Attracting new types of FDI to Egypt

Egypt has been more successful in attracting resource and market seeking investment, and less successful in attracting export-oriented FDI outside of the primary sector. In this respect, Egypt's experience is no different from that of many developing countries.

Resource-based investment is the largest component in United States and European FDI in Egypt. There is a major presence in oil. There are also important energy, mineral and agricultural projects whose contribution to economic growth is significant. However, a long-term issue is the degree of processing along the supply chain that can be undertaken in Egypt. It is possible to envisage two extreme situations: one where Egypt exports simple, unprocessed raw materials; and the other where the entire vertical operation is carried out within the country. An example of retention of the complete vertical process in Egypt is ceramics, where raw stone enters the integrated firm at one end and finished ceramic products leave at the other (tiles, bathroom and kitchen fittings, etc).

Table III.2. Foreign investors' expansion plans in Egypt
(Percentage of respondents)

Business plans	Sales	Exports	Investments
Significant increase	43	25	32
Moderate increase	22	11	25
Standstill	1	4	5
Reduction	-	-	-

Source: UNCTAD/ERF survey of foreign firms operating in Egypt, 1998.

¹³ WANA : The West Asia North Africa Region, with Morocco in the west, Pakistan and Afghanistan in the east, Turkey in the north, and Ethiopia and Sudan in the south. Region characterized by high population growth, low and erratic rainfall, limited arable land, and severely limited water resource.

Box. III.1. Egypt's strengths and competitive advantage factors

Executives in a number of major investor countries are positive of investment prospects in Egypt. A number of international investors interviewed (see annex for full details) have put Egypt "on the list" in considering their company's future investment locations. They rank servicing local market as the major investment pull factor, followed by regional and global exports.

Figure III.2. Foreign direct investment pull factors in Egypt



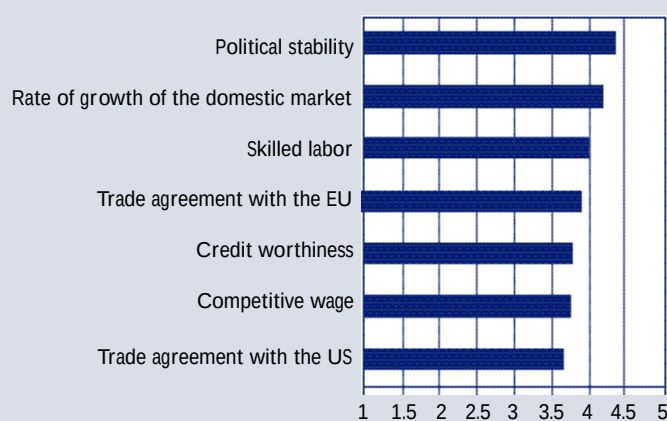
Source: UNCTAD survey of international investors.

Note: Average score, from 0 to 5 (highest rank)

Competitive advantages in Egypt are identified in access to primary resources, availability of land and low cost labour. However, when comparing Egypt with other possible investment locations, managers indicate that their main concern was not so much relative costs as the reliability of the business environment in the broad sense, that is, including factors such as the guaranteed quality of supplies, the commitment and quality of the labour force, and a predictable regulatory and fiscal framework.

Reinforcing these findings are factors that give Egypt a competitive advantage in attracting FDI in the next five years. At the macro level, political stability is of paramount importance. Of equal relevance are Egypt's relations with the European Union and the United States, and regional integration so as to enhance the opportunities to expand markets at home and abroad. Finally, competitive wages and skilled labour are regarded as key to Egypt's competitive position for attracting FDI.

Figure III.3. Factors in FDI attraction to Egypt over next five years



Source: UNCTAD/ERF survey of foreign firms operating in Egypt.

Note: Average score, from 0 to 5 (highest rank)

The other main types of FDI in Egypt, and the key factors influencing such investment, are illustrated in table III.3. The categories are by no means exhaustive; other examples will be evident from the company cases presented in chapter IV. However, they show the types of FDI potentially attracted to Egypt in the future. Much of the FDI in Egypt is in manufacturing for the domestic market. Many of the major companies took the opportunity offered by the open door policy to establish or acquire operations in Egypt to serve the expanding internal market. This local market focus was reinforced by the inward-oriented development strategy and lack of domestic competition. Industry examples of this type of investment include food, pharmaceuticals, automobiles and consumer electronics.

While import protection in Egypt had encouraged some foreign companies to establish production operations to gain market access, many others will have decided against investing for the same reason. In some cases, import barriers, which were lifted when firms export, impede foreign affiliate purchases of raw materials and intermediate goods from other group companies and third party suppliers when they produce for the domestic market.

Reducing the level of import protection will stimulate competition and encourage firms to rationalize their operations through reinvestments, and also stimulate economic growth, thereby attracting additional market-oriented FDI.

Export-oriented FDI in Egypt, another category, has so far been associated with low labour costs and free zone incentives, and to a lesser extent to gain access to regional and global markets. Most free zone investment is in the textile industry. Using domestic cotton and foreign design, machinery and know how, the foreign affiliates export garments and other textile production through the distribution networks of parent companies. This mode of operation may encompass a wide variety of ownership relationships between the Egyptian affiliate and the parent company, including foreign majority and minority ownership in joint venture agreements, and other non-equity arrangements, such as long-term contracts, subcontracting, concessions and so on.

An important export-oriented industry in some developing countries is electronics (semiconductor chip assembly and consumer electronics). It is fast growing and is characterized by globally integrated production. As yet, Egypt has only limited presence in this industry; but consumer electronics may thrive in the growing domestic market and of export opportunities, mainly in the European market.

The lack of FDI in manufacturing with export potential, such as food, garments and electronics, reflects the difficulty of achieving good supply-chain management when Egypt is a part of the chain. At the firm level, Egyptian enterprises might suffer from low productivity, poor product quality or design, and problem solving skills in repairs and maintenance may be limited. Such weaknesses prevent easy integration of Egyptian firms into international networks.

Attracting export-oriented FDI (such as textiles and electronics) is highly competitive and Egypt will need to compete with MENA countries, some of which are well established in these industries, and with countries in other regions. Egypt's low labour costs represent a strength for attracting this type of FDI but more consideration needs to be given to the level and structure of incentives and other free zone characteristics. Furthermore, international market access is critically important.

A further FDI category is services. Tourism is an important industry, with a large number of hotel management agreements. Hotels in Egypt are often locally or owned by Arabs and are operated by an international chain through a management contract. The foreign partner provides a brand name, and ensures quality of service and quality of physical infrastructure; in return, he receives a management fee (which does not necessarily depend on the profitability of the investment). There is substantial potential for FDI in tourism in Egypt (see box III.2).

Table III.3. Opportunities for foreign direct investment in Egypt

Key FDI determinant	Domestic market-oriented manufacturing FDI	Labour-intensive export-oriented FDI	Services FDI	Partnerships
	◆ Domestic market size and growth ◆ Import barriers ◆ Consumer preferences ◆ Incentives ◆ Import barriers	◆ International market size and growth ◆ Access to regional and global markets ◆ Labour and other costs ◆ free zones incentives	◆ Domestic market size and growth ◆ Access to regional markets ◆ Natural and human resources ◆ Physical infrastructure	◆ resources and know how of domestic enterprises ◆ Domestic market size and growth
	Examples: Automobiles, food, pharmaceuticals, consumer electronics	Examples: Clothing, leather, PCB assembly, construction material	Examples: Hotels, tour operators, software development	Examples: Metals, software development, food and confectionery
Economic benefits				
◆ Employment creation	Medium/high	Medium/high (but low skills)	Low/medium	Low/medium
◆ Value added and productivity	Medium/high	Low	Medium/high	High
◆ Exports	Low	High exports (and imports)	Medium/high	Low (but potential)
◆ Technology know how	Medium/high	Low/medium	Medium/high	Medium/high
◆ Technology upgrading	Low	Low	Medium/high	High
◆ Linkages and spillovers	Low/medium	Negligible/low	Medium/high	Medium/high

Source: UNCTAD survey, 1998

Table III.4. Improving the economic contribution of FDI in Egypt

Domestic market- oriented FDI	Export-oriented FDI (electronics) (for technological upgrading)	Services FDI	Partnerships
Domestic and export market- oriented FDI (with regional product mandates) plus local product development	Development of backward and forward linkages	Integration into TNC regional and global strategies	Technological upgrading plus export orientation
↓	↓	↓	↓
Domestic and export oriented FDI with increasing backward and forward linkages. Cluster formation, including Egyptian-owned SMEs	High technology manufacturing and extended value scope (e.g. marketing, R&D)	Tourism infrastructure development. Cluster for- including Egyptian enterprises. Outward FDI to MENA region.	Outward FDI by Egyptian owned and Egyptian -foreign joint ventures expanding within MENA region
Policy actions	◆ After-care services ◆ Investment in physical, technological and educational infrastructure ◆ Cluster generation strategies ◆ Support for Egyptian SMEs	◆ Infrastructure development (physical and educational) ◆ Support for Egyptian software industry and SMEs	◆ Promotion of partnerships ◆ Training for partnerships ◆ Support for outward FDI

Source: UNCTAD survey, 1998.

Software development is also a potential source of FDI. Whereas resource endowments (e.g. historical sites and beaches) are important for tourism, software projects are driven by human resources (both as inputs and end users). Egypt has a large number of university graduates and a rapidly growing domestic demand, and all the main international computer software companies are active in the country. Financial services could also attract foreign involvement to a greater degree.

Box III.2. Accor Hotels S.A.E.: a management partnership

In 1992, Accor Group of France took over the Wagon-Lit Group and its business in Egypt. Established in August 1980 was known as Compagnie Internationale des Wagons-Lits et Tourisme - Egypt, its business in Egypt comprised management contracts for a number of hotels and the on board catering and sleeper car services provided for the Egyptian railway network. To develop and expand its operations in Egypt, the Accor Group invited collaboration and active investment from the Egyptian private sector. The El Maghraby Group joined forces with Accor and in July 1994 Accor Hotels S.A.E. was launched as a joint stock venture specialized in hotels management and tourist development.

The company currently has capital of US\$ 9 million. The tourist group manages 22 hotels, owns 3 hotels and is part shareholders in 4 hotels under construction. They have 300 bed medical (mainly optical) hospitals and a chain of opticians.

It currently employs 4,755 people and sales have reached a value of US\$ 74 million, which is expected to increase to US\$ 86 million in 1998. They have also allocated substantial investments reaching LE 90 million to a number of projects including building a 120-room extension to the existing Winter Palace Hotel in Luxor and to renovating the Sofitel Old Winter Palace Hotel and its gardens. They also plan to build a 152-room extension to the Novotel Sharm El Sheikh Hotel and to renovate the Novotel Dahab Hotel and other projects.

In October 1997, Accor Group of France and Accor Hotels S.A.E. signed a Master Franchise Agreement for a further 30 years, extending Accor Hotels S.A.E.'s entitlement to operate all the hotels owned by the Accor Group of France: there are Sofitel, Novotel - Ibis and Mercure. It also entitles them to establish a joint investment fund between the two groups and other international and Egyptian private-sector investors. The input from the French partner is largely in the form of human resources training for hotel executives as well as access to the brand names.

The management believes that FDI flows from tourism into Egypt are likely to grow significantly over the coming five years. The key issue is the quality of services which depends on the quality of training of the service personnel. The company believes that the way forward is to develop two centre holidays with cultural tourism mixed with resort tourism, to develop resort areas and encourage business travel with conference business and golfing holidays.

Source: UNCTAD and ERF survey, 1998.

A final FDI category concerns the potentially important area of partnerships. Typical of cases of other emerging economies, a number of Egyptian private sector enterprises have developed a strong competitive position based upon dominance of the domestic market. But their future expansion requires the technological upgrading of processes and products, and support for their own internationalization.

Box III.3. The Ezz Group: a joint venture geared to access technology and new markets

The Ezz Group has been the leading private Egyptian company in the iron and steel sector for the last two generations and has probably the largest private steel producer in the Arab world. The company's primary activity of steel rolling is complemented by commerce and transport and by ceramic tile production. The latter together with the company's new steel rolling plant, are located in Sadat City, 100 km away from Cairo.

The company started in the 1920s and operated as a supply, contracting and shipping enterprise until the 1980s. With strong import and export links to Eastern Europe, at one time the Ezz Group shipped around 1 million tons of steel locally and internationally on an annual basis. The business stagnated but was reactivated with the establishment of a steel rolling mill in Tenth of Ramadan City in 1991 and a further facility in Sadat City in 1996. Employment in the sector now totals 1300 people.

The first ceramic tile line went into production in the late 1980s and rapid expansion led to a growth in production capacity and employment grew from 100 to 1200 over a six year period.

The Ezz Group has a commitment both to state-of-the-art technology and best business practices. The company has been reorganized twice using the services of Arthur Andersen and Booz-Allen consulting firms. There is also a strong commitment to training: 200 personnel are fully funded for two-year training programmes; the company has established its own training institute in collaboration with an overseas university; and 13 people are on full time sabbatical enrolled in MBAs programmes in the United States and Europe.

An interesting recent feature of the group's expansion has been the establishment of a joint venture with the Italian company, Danieli. The two private enterprises had worked together over a 10 year period on three projects involving technology and equipment importation from Italy. Through this collaboration, both firms were able to understand each other: for Danieli, it meant an understanding of the quality of Ezz Group personnel and of the ethics of the company, and knowledge of the Egyptian environment. The joint venture involved a steel project that was too large and technologically sophisticated for Ezz to handle on its own. It is regarded as the first of a series of such ventures to assist the technological upgrading of the Ezz Group and its expansion both in Egypt and overseas. As the joint venture has just been established, the evaluation of changes occurring cannot be performed at this stage.

Source: UNCTAD survey, 1998.

Partnership arrangements between such Egyptian enterprises and foreign companies offer opportunities for mutual benefit. Where such arrangements are successful, they are likely to follow a lengthy period of working together, building cultural understanding and so on. Partnerships are found in subsectors such as metals, software development, food and confectionery. Box III.3 provides an example of the Ezz Group which took the initiative in establishing a joint venture with the Italian corporation Danieli.

C. Overall assessment

FDI in manufacturing for the domestic market and labour-intensive export-oriented FDI offer the best prospects, and along with tourism (and possibly FDI in privatization) are likely to provide the bulk of FDI in the near future. The immediate benefits will be primarily increased capital inflows, job creation, expansion of exports with low skill content and, of course, economic growth. While these are important benefits, a key strategic objective should be to upgrade FDI in Egypt and orient it into higher-value added production. In the light of this diagnostic, it would be opportune to involve the private sector in a thorough review of the incentives framework.

An illustration of FDI upgrading is the evolution of the Egyptian operations of the Swiss TNC Nestlé from an exclusively domestic market orientation into exports, and the commencement of local product development to meet Egyptian market requirements (see box III.4). The example of Glaxo and other illustrations are presented in chapter IV.

Experience in other countries suggests that FDI upgrading is linked to the global strategy of the parent companies for their affiliates, the policies of the affiliates (especially related to the drive and motivation of affiliate management) and host country policies. Thus, the attraction of FDI is not a one-off event. From a policy perspective, the objective must be to encourage expansion and FDI upgrading through reinvestments and new investment in higher value added activities over the medium- and longer-term so as to enhance the contribution of FDI to Egypt.

An essential feature of FDI (and TNC activities) in Egypt is that it encompasses a range of economic influences, not simply capital flows but also a variety of economic contributions in trade, technology transfer, employment generation etc. In Egypt, as in most countries, the foreign affiliates are larger, faster growing and more productive than equivalent domestic enterprises; under appropriate conditions, they can play a catalytic role in private sector development. Table III.4 highlights some of the differential economic benefits associated with various types of FDI in Egypt, and shows how FDI may evolve, and be encouraged to develop, over the medium and longer terms.

In attracting new FDI, improvements in the business climate in a generalized way are important, alongside specific factors such as improving trade efficiency, ensuring competitive incentive packages, etc. However, in encouraging expansion and upgrading of existing FDI into the future, the policy emphasis must be on infrastructure investment, relating to the physical, technological and educational infrastructure. The development of concession or build-operate-transfer (BOT) type contracts could be further enhanced, facilitating the private management of infrastructure projects. Sector-specific policies are also significant in promoting clusters of related enterprises and self-sustaining development. Finally, whereas the marketing emphasis for initial FDI concerns promotion, for upgrading, after-care services to inward investors are of paramount importance.

Box III.4. Nestlé Egypt S.A.E.: a supporter of regional trade

Swiss TNC Nestlé commenced exportation of products from Europe to Egypt in the late 1930s. Encouraged by the Open Door Policy, however, in 1988 Nestlé purchased the minority share holding of Industrie du Froid, a local ice-cream and yoghurt producer. Although the company's strategy is to "go on our own" if we can, the Egyptian partners were regarded as helpful in bringing local expertise and know how as well as local distribution; subsequently Nestlé took 100 per cent ownership of this operation. In 1988 Nestlé also constructed a new facility in Sixth of October City to manufacture Maggi Stock and Cereals infant-weaning cereal. Finally in 1995, it acquired the Dolce Company for food, an ice cream and snacks producer located in Sixth of October City.

Egypt was regarded as a strategic entry for Nestlé, reflecting its geographical position at a cross roads and its large population and significant influence in the region. Although the company has taken a long-term view of the profit and volume objectives, the market has been more difficult to enter than expected. Nestlé Egypt is only beginning to generate profits. An important part of the process has been culture transfer and the diffusion of Nestlé philosophy. The Managing Director of Nestlé Egypt is responsible for management and development for Ethiopia, Sudan, Eritrea, Djibouti and Somalia; the majority of products for these markets are imported from Europe, with some from Egypt. Nestlé Egypt is a significant exporter, particularly of Maggi products, where it has the market franchise for the majority of North African and Middle East countries. Export opportunities for Maggi products may also be exploited in other countries, provided no conflicts arise with the sister Nestlé affiliates. Limited exports of ice cream products are made to neighbouring countries too. In the future, there may be opportunities for additional exports to the Gulf, as well as to countries such as Turkistan, Pakistan and Israel. However, the strong view was that TNCs should not set up a manufacturing operation initially with an export orientation because it is too risky. As a supporter of regional trade, Nestlé Egypt imports from other group facilities, an example being Nescafe instant coffee which is imported from the company facility in Morocco. The product range has been expanded, and a new product, Nesquik, introduced to the Egyptian market in 1994. In a typical sequential approach, the finished product was initially imported, followed by imports of bulk stock and local packaging. Nestlé Egypt is now in full manufacture locally. Product development has emphasized local adaptation, improved efficiency and cost reduction. There are also plans to establish a formal product development department.

The company has faced a number of environmental and policy challenges in Egypt and had various observations to make on the investment climate. Tax holidays were considered to be of little value and preference was given to the abolition of import duties. In addition, because of the different investments, the company has to operate three corporate entities under two laws and three tax environments, which cannot be harmonised. Although there is a highly educated elite in Egypt, there is a shortage of middle managers and skilled labour. There are also major bottlenecks, particularly in terms of infrastructure, with difficulties encountered in a new city, such as Sixth of October City. Because of extended family systems, workers are reluctant to move from Cairo, a problem exacerbated by shortages of schools, hospitals and recreational facilities.

Source: UNCTAD survey, 1998.

Competition between countries for FDI means that marketing and promotion programmes have a critical role, especially in ensuring that Egypt is “on the list” when investors search for locations for new FDI projects; but also in encouraging investors to choose Egypt from the short list of potential locations. In many countries, marketing programmes are now highly sophisticated in terms of targeting countries, sectors and companies, of utilizing promotional techniques, and of linking promotions to other aspects of the investment attraction package, particularly incentives. The requirements for Egypt are, thus, for an institutional set-up that undertakes such activities efficiently and competitively. Attention must be given to marketing the attributes of Egypt to the outside world generally and to potential inward investors specifically. To effectively fulfil the basic marketing and promotion function, the FDI body must have a strong link with the private sector, that is the professional staff should be able to talk to executives in terms they understand and appreciate. The educational background and professional experience of the agency staff should adapt to specific needs of promotion programmes by countries and sectors. Finally, performance measures would change from time scale for project registration to the effectiveness of marketing programmes.

In seeking niches in export-oriented industries, Egypt is in a unique position to become an export platform for two distinct regions: the Middle East and Africa. There are also particular product groups in which Egyptian affiliates may develop global production. These opportunities in selected dynamic industries and services are reviewed in the following chapter.

IV. Investment Opportunities in Selected Industries

Egypt enjoys comparative advantage not only in natural resources, but also in several manufacturing industries including textiles, engineering, metals, pharmaceuticals and food processing. These industries are expected to attract FDI to meet a growing domestic demand, but the potential for export should also be tapped. There are also exports niches in particular product groups where Egyptian affiliates could develop global production.

Generally, Egypt's proximity to the regional markets of the Middle East and Africa is as yet an untapped strength which can be used to upgrade FDI.

This chapter examines selected industries - pharmaceuticals, textiles, tourism, and electronics and software - to illustrate the opportunities to expand and upgrade FDI.

A. Pharmaceuticals

Pharmaceuticals in Egypt is a dynamic industry (see table IV.1), with an average annual growth rate of 14 per cent in the 1990s.¹⁴ The main stimulus for growth is domestic demand, which is fuelled by expanding coverage of health-care services and rising per capita drug expenditure. Thus, manufacturers, foreign and national, cater for the local market. In 1997/98 a strong upward shift was registered in pharmaceutical exports, which achieved a 150 per cent growth rate.

1. Market structure and investment patterns

The industry comprises 9 TNCs, 6 private companies and 8 public-sector enterprises. The domestic private sector has become an important player and currently accounts for more than half of total output. The TNC market share is 30 per cent. The traditional dominance of public-sector enterprises has been consistently subsiding, from a market share of 76 per cent in 1981 to 15 per cent today.¹⁵

The presence of TNCs in Egypt dates back to the 1960s following government control of all imports and distribution of pharmaceuticals, albeit leaving a low tariff structure intact. This move, and the limited patent protection of imports of pharmaceutical products, created the incentive for foreign companies to set up production facilities in Egypt.¹⁶ The Egyptian pharmaceuticals sector was thus among the first recipients of FDI, when Pfizer, Hoechst and the Swiss consortium of Ciba Geigy, Sandoz and Wander (Swiss Pharma) established joint ventures in Egypt.¹⁷

Three decades of presence in the Egyptian market has allowed TNCs to enjoy a prominent position; Bristol Myers Squibb and Novartis manufacture three of the top 10 products sold on the Egyptian market. Hoechst Marion Roussel and Pfizer market the most popular products.¹⁸ The Novartis case illustrates the integration of Egyptian operations with the European strategy of the company (box IV.1).

Typical of the pharmaceuticals industry world wide, production in Egypt is characterized by a relatively high degree of concentration. The top ten firms operating in the Egyptian market control over 44 per cent

¹⁴ Information Medical Statistics (1997).

¹⁵ Information Medical Statistics (1997).

¹⁶ Heba Handoussa (1974), "The Pharmaceuticals Industry in Egypt", Unpublished Ph.D. Thesis. University of London. SOAS.

¹⁷ Handoussa (1974).

¹⁸ Information Medical Statistics (1997).

of market share, while the top 5 companies control 27 per cent of the market.¹⁹ The Government hedges against possible oligopolistic behaviour by regulating the movement of drug prices. Drug prices in Egypt are administered by a cost plus formula, which allows a profit margin of 15 per cent on essential drugs and 25 per cent on non-essentials.²⁰

An additional feature of the Egyptian pharmaceuticals industry is that local production is concentrated on end-use products for final consumption. The industry imports nearly 90 per cent of its raw material and intermediate inputs with its total import bill reaching US\$ 221 million in 1995.²¹

The industry has thus achieved limited success in developing backward linkages, with little local production of intermediate inputs. Companies attribute this to unencouraging pricing regulations and inadequate economies of scale (ESCWA, 1997).²² The absence of backward integration should not, however, eclipse the fact that in terms of domestic resource cost (DRC) the contribution of the industry to foreign exchange savings that would have otherwise been allocated to meeting the country's drug needs has been substantial.

Owing to the nature of the governing patent law in Egypt (Law 132 of 1949) which allows patents to expire after ten years, the Egyptian pharmaceuticals industry has excelled in terms of manufacturing generics (table IV.2). More than two thirds of the output of the public and private (national) sectors is accounted for by generic products, while the remainder is produced under licence. Egypt's pharmaceutical exports are almost exclusively in the generic (off-patent) category of drugs.

Table IV.1. Pharmaceutical output and sectoral distribution
(Millions of Egyptian pounds)

Year	Public sector	TNCs	Private sector	Total
1984/85	304	103	28	435
1985/86	331	118	72	521
1986/87	270	129	82	481
1987/88	442	158	146	746
1988/89	521	194	197	912
1989/90	554	216	284	1 054
1990/91	628	225	335	1 188
1991/92	748	n.a.	651	1 398
1994/95	976	n.a.	1,232	2 208

Source: CAPMAS (1994) Economic Census 1991/92. Final Results. Volume Two.
CAPMAS (1996) Output, Trade and Capacity Utilisation of Industrial Production 1984/85-1994/95.

¹⁹ Information Medical Statistics (1997).

²⁰ Egyptian Financial Group (1996). "Guide to the Egyptian Capital Market."

²¹ Ministry of Economy and International Co-operation (1996). *Egypt Economic Profile*.

²² ESCWA (1997). "Challenges and opportunities of the new international trade agreements", United Nations.

2. Investment opportunities

Investment opportunities are closely linked to three main factors: market growth; privatization in the pharmaceuticals industry; and the patent law. The domestic market is expected to continue to grow in the double digit range, and is projected to reach LE 4.5 billion by the year 2005 (see table IV.3).

The export market is small: only 5 per cent of total production is exported. In fact, Egypt spends twice as much on pharmaceutical imports as she earns on pharmaceutical exports. Compared to other regional manufacturers - Jordan, for example - Egypt seems well behind its potential export frontiers.

Table IV.2. Product groups manufactured under each type of ownership

Sector	Generics	1985/86		1995		
		Under license	Re-packaging	Generics	Under license	Re-packaging
Public sector	68.0	31.2	0.8	67.1	32.9	n.a.
TNCs	4.0	93.5	2.5	—	100.0	n.a.
Private sector	87.1	7.9	5.0	68.2	31.8	n.a.

Source: Academy for Scientific Research (1995). "The Egyptian pharmaceuticals sector. A case study".

Table IV.3. Projected demand for pharmaceutical products in Egypt
(Millions of Egyptian pounds)

Year	Demand value
1998/99	3 543
1999/2000	3 718
2001/02	3 901
2002/03	4 093
2003/04	4 296
2004/05	4 508

Source: Academy for Scientific Research and Technology (1994). "The Egyptian pharmaceuticals sector: A case study".

Nevertheless, Egypt's pharmaceutical exports are growing rapidly (see table IV.4.): the export market is more dynamic than the domestic market, the import market and even the world market.

Box. IV.1. Novartis (Swisspharma Egypt): joining Europools

The Novartis Group was created by the merger of Ciba and Sandoz in December 1996. Novartis is dedicated to serving its customers' needs in the broad spectrum of the life sciences. Novartis operates in more than 150 countries and employs about 87,000 people around the world. Health care is the core business, accounting for 72 per cent of total operating income, complemented by activities in three other areas: consumer health, generics and CIBA vision.

Novartis started its operations in Egypt in 1962, creating a joint-venture between Sandoz and Ciba (before the merger). Production was established in Egypt while in other Middle East and African countries (with the exception of South Africa) local agents distribute and market the company's products. The Egyptian affiliate is a registered legal entity, with Novartis as the majority shareholder. It has developed into a full-fledged operations, with management supervision by Novartis, which also maintains corporate presence in finance.

The development of Novartis's operation in Egypt had four major components:

- ◆ Total quality management system: a large-scale investment programme was launched to build up a modern plant, and to train workers to operate in a plant conforming to world standards.
- ◆ Local management: the company is fully run by Egyptians, but the director, Mr. Sabet, was educated abroad, and is familiar with European management practices.
- ◆ Regional coordination: the Egyptian affiliate is fully integrated in the European area. It is considered as a part of the European market, and it is one of its five production sites including Switzerland, France, Italy and Turkey. The Egyptian affiliate's mid-term objective is to become a supply point for Novartis in Europe by joining the Europool programme. Europool will assign product lines to each affiliate.
- ◆ Learning experience: In order to develop the principal segments of pharmaceuticals in which the company has a leader position (generics, innovation-driven products, and off-patent drugs), the company conforms to "Good Manufacturing Practices" (GMP). Training of personnel to achieve high standards was and still is performed also on the technical side with the purpose of operating high-tech equipment and compact lines.

Novartis's future investment plans in Egypt include clinical testing and clinical trials, related research and development, exploiting the synergy with the high-skilled local medical community and the medical schools. By performing clinical testing, the Egyptian affiliate will benefit from international know-how, scientific exchange and technology transfer. However, to launch this programme, some obstacles need to be removed. Government regulatory support for the adoption of clinical and testing standards would facilitate the establishment of clinical testing in Egypt. The commitment of key members of the medical community is also critical to the success of launching such programmes in Egypt.

Source: UNCTAD survey, 1998.

Table IV.1.4. Egypt's trade in pharmaceutical products
(Thousands of Egyptian pounds)

Year	Exports	Imports
1984/85	4 713	64 437
1985/86	5 338	55 015
1986/87	5 566	109 248
1987/88	14 951	163 745
1988/89	20 546	181 003
1989/90	24 542	181 768
1990/91	43 451	218 480
1991/92	69 671	217 208
1992/93	73 782	279 517
1993/94	90 094	226 375

Source: CAPMAS (1996) "Output, trade and capacity utilisation of industrial production , 1984/85-1994/95".

Box IV.2. Eli Lilly: A strong partnership with a local company

Since 1991, Eli Lilly has worked in close cooperation with its local Egyptian agent, Alkan. In 1994, Lilly and Alkan agreed to acquire the Egyptian plant and operations of Roussel Uclaf Egypt. In 1995, an expansion was decided on a new injectable product, designed to produce human insulin, meeting the European Union's current standards "Good Manufacturing Practices". This facility represents a capital investment of LE 45 million (US\$13.7 million) and will be the first in the Middle East. Lilly has recruited an Egyptian only manufacturing staff, who are undergoing extensive training. The Egyptian facility will be using Lilly approved raw materials and packaging components and analytical controls transferred by the affiliate located in France.

The products produced by Lilly Egypt will be initially for local use although there are plans to consider products for export to satisfy Lilly's increasing business in other Middle East and African markets. A key element of the local plant's development is the successful technology transfer of production and control system. The growth of Lilly in Egypt has been built on a strong partnership with a local company, acquisition and investment in a local manufacturing base and the development of a broad range of activities with the local scientific and general communities. Along with expanding manufacturing activities, Lilly is developing clinical testing and launched a number of research programmes in collaboration with the local community. It has begun, and will continue, to develop and expand its support to medical education, scientific meetings and health-care programmes in Egypt.

Source: UNCTAD survey.

Pharmaceuticals have ranked on Egypt's annual list of most dynamic export products for the last decade. The indicator of revealed comparative advantage (RCA) also shows that pharmaceutical products account for a larger share of Egypt's foreign exports than their share in world trade, an indication that the industry has a comparative advantage in exporting its products.²³

This export performance is attributed to the quality and price competitiveness of Egyptian products. The export market is projected to grow to LE 200 million by the end of the current decade, especially as a result of the opening of new markets for Egyptian products in Europe, the United States and in the Russian Federation.²⁴

The Government of Egypt is committed to a privatization programme, which cuts across all sectors of industrial activity. Several public-sector pharmaceutical companies have been privatized, representing about 40 per cent of total proceeds from privatization. While a change in ownership status may be an investment opportunity, it is not strictly a "new" investment.

The activation of the stock market in Egypt will, nonetheless, allow existing and newly established companies to tap the capital market as a source of financing plans for capacity expansion as well as for new green-field investments.

In 2006, Egypt is expected to extend the period of exclusivity of patent holders from 10 years to 20 years, in line with obligations under the Uruguay Round Trade Related Intellectual Property Rights (TRIPs) Agreement. The current patent law has allowed the industry to build up and maintain a comparative advantage in the manufacturing of generics.

That advantage will need to be sustained in the future on the strength of local technological capacities. This appears feasible. The industry has a well-developed niche built on nearly 40 years of operation, as well as a competent research staff which can be readily supplied by the country's pool of people who are technically and scientifically skilled.

At the same time, Egypt should target FDI involving low and intermediate R&D activities. In general, because industrial R&D can be conducted in developing countries at a much lower cost, there is potential for the Egyptian pharmaceuticals sector to capture a portion of this expenditure. Egypt has more doctors, engineers, pharmacists and skilled technicians than any other country in the region.²⁵

Also, technical and skill-intensive wage levels in Egypt are competitive by international standards. These cost considerations, combined with the prospect of prolonged patent protection, should amount to an important incentive for foreign companies when considering where to undertake R&D activities.

²³ Ministry of Economy and International Cooperation (1996). Egypt Economic Profile.

²⁴ UNIDO (1994). Egypt Industrial Development Review UNIDO and the Economist Intelligence Unit.

²⁵ Handoussa (1999). "Competitiveness of Egyptian manufacturing in the 1990s", forthcoming.

Box IV.3. R. P. Scherer Egypt: winning a regional export mandate

R. P. Scherer is a United States company which has a dominant share of the world soft gels production. Soft gels are a gelatine-based product into which active ingredients are injected. Essentially, the business involves selling the product to the top management of the pharmaceutical company that produces the active ingredient. Scherer (Egypt) then produce the capsules, either in bulk or in retail packs.

Scherer has a long relationship with Egypt which began in 1959 with an agency and bulk deliveries, which ended when the socialist regime prevented importation, and began again in the early 1970s. The current company is a joint venture with 10 per cent United States ownership and 90 per cent Egyptian ownership. Scherer has 12 factories worldwide and its Egyptian partner, Pharco, has other pharmaceutical interests, notably drugs for tropical diseases.

Scherer Egypt has a new plant in New Borg alArab which enjoys a 10-year tax holiday. The company has good training procedures and has no difficulty in attracting skilled personnel. Only university graduates are employed, even on production operations. Scherer's contribution was to bring technology, brand names and training methods. Many of the employees have been seconded for 3 months training period to the Scherer's plants in the United Kingdom and France. Scherer personnel have visited Egypt also for training. It is, essential to comply with the appropriate regulations in the pharmaceutical industry and the training procedures are designed to achieve this. The sophisticated machinery employed produces very low rejection rates and the plant currently operates 7 days per week, 24 hours per day. The plant exports 15 per cent of its output to some 35 markets. The major export market is Romania (where there are 25 sales representatives) with Yemen, Saudi Arabia and Uruguay following.

The Egyptian parent, Pharco, aims largely to satisfy the domestic market and part of its mission is to specialise in tropical diseases such as bilharzia. The future investment plans of the Egyptian company include an entry into biotechnology. Some work has already begun and the company hopes to begin product development based on in-house R&D. Expansion of the company is greatly facilitated by workers and middle managers who are loyal to the company and who are growing up with it. Staff turnover is not a problem and recruitment can continue.

Managers in the company see Egypt as having a comparative advantage if a good foreign partner can be found who can run the company to international standards. Major assets include the low price of land, manpower and electricity which reduces operating costs and can be combined with machinery and raw materials whose price is the same all over the world.

This case illustrates inward technology transfer to an Egyptian plant given a de facto regional product mandate (Middle East, Africa and part of Eastern Europe). The domestically orientated part of the company has the opportunity to expand building from a strong and growing domestic market to develop export potential.

Source: UNCTAD survey, 1998.

Box IV.4. Glaxo Egypt S.A.E.: total quality management system

In 1990, Glaxo entered the Egyptian market by acquiring a minority shareholding in a local pharmaceutical company, Advanced Biomedical Industries, owned by the Amoun Pharmaceutical Industries. It entered late the market and this delay meant that Glaxo has had to demonstrate a strong commitment to the market and to technology transfer. The Glaxo equity stake has subsequently been increased to 90 per cent through capital investment and is valued at £140 million. As at 1998, Glaxo was one of eight TNCs in Egypt, five of which had major investments, in an industry comprising 23 companies (9 State owned) with a market value of £440 million. Glaxo's early years in Egypt involved substantial restructuring as well as investment, and Glaxo Egypt's products were not formally launched until December 1992. The employment in the company at entry was 741, but the public sector, 'jobs for life' culture proved highly problematic. Thus, although employment has subsequently been increased to 1,000, 380 workers were made redundant and 700 hired. A large-scale programme to retrain workers was also instituted, with a major shift of emphasis from assembly to other operations. As part of the restructuring, both manufacturing facilities and the distribution system were totally rebuilt. As at 1992, the company was ranked 22nd in sales in Egypt; by 1997 it was ranked number 2 and had a market share of 5 per cent and a turnover of Egyptian pounds 3.7 billion. A loss making situation of Egyptian pounds 2 million in 1992 had been converted into a profit of Egyptian pounds 30 million by 1997. The significant company investment in Egypt reflects the Glaxo view that entry into an emerging market is a long-term commitment and needs substantial support to overcome problems of infrastructure, distribution and supplies.

Development of the Glaxo Egypt operation has had three major components. First, efforts to achieve a total quality management system led to ISO 9002 certification from the British Standards Institution in 1997, the first pharmaceutical company in the Middle East and Africa to achieve this; there was similar success in certification for manufacturing resource-planning processes. Second, the company invested LE 2 million in a development laboratory in 1995 with the principal objective of developing products off-patent. Sixty one product forms have been registered since 1992. Four people are presently involved in development and 40 in quality assurance and control. Third, the company has taken its initial steps into exporting and is the first pharmaceutical TNC in Egypt to market outside the country. Approval has been given to supply Qatar, Yemen and Nigeria, and exports to Nigeria were worth around LE 3 million in 1997. There are hopes that Glaxo Egypt will be granted the regional mandate to become one of two supply sources for Glaxo Welcome for the Middle Eastern and African market.

The company moved into exports because it was a cost effective producer and production technology could satisfy the limited demands of African markets. However, while Egypt is the largest supply source in the region, the company also has facilities in South Africa, Kenya and Saudi Arabia. No decisions have yet been taken on any reallocation of market and product franchises to individual countries. In the short term, exports from Egypt will focus on markets that are small or fragmented, where the maintenance of one manual production line in the factory facilitates short production runs. Some bureaucratic obstacles have been faced in export procedures. Glaxo is still in the early stages of a large development programme in Egypt and its strategic plan envisages continual upgrading of existing facilities and capacity expansion. With the recent acquisition of a second factory of Amoun Pharmaceutical Industries, Glaxo gained a 9 per cent share of Egypt's entire pharmaceutical market. The labour force in Egypt is as loyal, inexpensive and productive and there are many graduates - for example, all 350 Glaxo agents are pharmacy graduates. Problems for the company include rigid pricing policies, more transparency is sought in this area and in drug registration and patent protection.

Source: UNCTAD survey, 1998.

A number of measures in response to the TRIPs agreement have been adopted in Egypt. In the field of drug R&D, the steps include the setting up of a high-level “Steering Committee for Drug Technological Development”, specialized working groups and the establishment of a national R&D network. The formulation of a national R&D strategy can be complemented with parallel and mutually reinforcing actions promoted by TNCs in the industry to develop, for example, clinical testing in Egypt (see boxes IV.1 and IV.2).

Furthermore, the adoption of a national R&D strategy would be viable only if supported by actions that would improve the competitiveness of the Egyptian pharmaceutical industry. This will help both to increase exports and replace imports.

Egypt has built a position from which it can develop as a base to service regional markets in African and Arab countries - and possibly also develop its foothold in Russia and Eastern Europe. This is true a fortiori for generic drugs and drugs for the treatment of tropical diseases where regional product mandates can be acquired. The area of medicinal plants can also be developed so that it can become a comparative advantage for Egyptian pharmaceutical firms, targeting exports to other countries in the region.

Low wages are not a particularly significant inducement for inward FDI in pharmaceuticals due to the industry's low labour intensity. However, the large pool of highly trained doctors, pharmacists, engineers and skilled technicians is an important inducement for TNCs to use Egypt as a gateway to the growing market of the Middle East and Arab countries.

Technology transfer to Egypt and the building of a regional product mandate is illustrated by the R.P. Scherer case (box IV.3). Product quality is vital in pharmaceutical production, particularly for acquiring regional product mandates. TNCs based in Egypt are working to raise quality standards, to achieve ISO 9000 certification and eventually aspiring to obtain full (United States) FDA approval. However, the quality requirements necessary to penetrate the world's key markets are extremely exacting, and it is likely that TNCs will follow a step-by-step upgrading of their Egyptian facilities (see the Glaxo example in box IV.4).

Thus, for the foreseeable future, Egyptian units will likely concentrate on their traditional markets (the Arab world, Africa, Russia and Eastern Europe) whilst quality standards are raised. In this process, Egypt's FDI strategy must aim at finding key market and product niches.

Egypt faces competition from other national locations to attract FDI. Competition is particularly fierce for TNCs that have technology and product mandates to offer. In the region, Jordan is an attractive alternate location. While competitive in labour cost and availability, Egypt should improve its competitiveness in terms of expanding R&D support services and reducing transaction costs. In addition, a strong and vibrant domestic private sector is desirable in order to provide potential joint venture and alliance partners for incoming TNCs. These challenges are summarized in the analysis of strengths and weaknesses of pharmaceuticals (see table IV.5).

3. Policy implications

A challenge facing the Egyptian pharmaceuticals industry in the coming decade is the global strengthening of intellectual property rights, to which Egypt is committed. Firms with innovative capacities will be able to meet this challenge.

Table IV.5. Egypt's attractiveness for FDI in the pharmaceutical industry

Strengths	Weaknesses
Low labour cost	Quality standards
Supply of pharmacists/doctors	Lack of local R & D
Access to Arab and African markets	High transaction costs
Generics production	
Regional product mandates from TNCs	
Opportunities	Threats
Domestic market growth	Competition for TNC Investment (Jordan)
Export platform investment	
Tropical drug market	TRIPS

Source: UNCTAD survey, 1998.

The declining role of public-sector enterprises in the industry should be complemented by increasing public support to private-sector firms undertaking indigenous R&D activities, especially since industrial R&D related subsidies could be maintained under the stipulation of the Uruguay Agreement. A main impediment facing R&D- activities in Egypt is the lack of financial support rather than the dearth of scientific skills and originality.

The strategy of the Egyptian pharmaceuticals industry has been driven largely by a health policy related target of providing affordable medicine to the population, rather than by an industrial policy which aims at shifting the focus of the industry away from sheer manufacturing activities and towards higher value added research-based production. Formal price controls are still in force and have led to some problems to firms in price adjustment.

The Ministry of Health's Pharmaceutical Services Committee, which controls drug prices, bases its decision on a simple cost-plus formula. Once a product price has been set, however, it can be changed only through a presidential decree. Overall, manufacturers assert that pricing of new-to-market drugs is administered fairly. Nevertheless, public policies should consider the economic dimension of new products and, therefore, strike the right balance between health care cost-containment and strategic industrial planning.

Because of financial resourcefulness, FDI is expected to play an important role in integrating the Egyptian pharmaceuticals industry into the network of world R&D, particularly in the aftermath of the TRIPs Agreement. A starting point for Egypt to embark on reaping the industry and trade relating gains in the field of pharmaceuticals is to launch a proper campaign to market the industry, with the constituency of such a campaign being the world-wide research-based pharmaceuticals industry.

An important window of opportunity, which should be exploited by all the actors in the Egyptian pharmaceuticals industry national as well as foreign, is related to the industrial restructuring scheme to be financed by the European Union. The Association Agreement currently negotiated between Egypt and the European Union should provide the industry with an opportunity to receive technical assistance as well as financial support for restructuring. Financial support earmarked for southern Mediterranean countries currently negotiating a free trade area with the European Union, among which is Egypt has been put at ECU 4.7 billion.²⁶

²⁶ Friedrich-Ebert Stiftung (1996), "Europe and North Africa, Paranoia or Partnership?" FES Discussion Paper No. 36.

B. Textiles and garments

Textile activity dates to more than a century. The regions which are particularly associated with thriving textile activity are Mehalla, Kafr Al Dawar, Shubra Al Kheima (Cairo), Helwan and Alexandria. Textile operations have also been established recently in the new industrial cities of Amereya, Borg El Arab, Tenth of Ramadan, and Sixth of October, which have been organised and promoted to attract domestic and foreign investment.

The main strategic competitive advantage is Egypt's abundant supply of cheap labour. New textile investment favours garment production which is typically characterized by high labour intensity. The largest number of new FDI projects is heavily involved in the supply of garments. Menswear and childrenswear attract the largest share of new investment projects.

1. Market structure and investment patterns

The Egyptian industry includes all the major processing routes for main line textile production, commencing with processing at the earliest stages, such as for fibres and including spinning and weaving capacity suitable for a wide range of products. Production ranges from the manufacture of carpets, fine cotton woven and knitted fabrics, to the manufacture of garments and many types of household textiles and furnishings. Knitting is used mainly for the production of fabric or garments.

Some 925 firms operate in the textile industry. Of these, 31 are public enterprises and represent close to 100 per cent of spinning capacity and 70 per cent of weaving.

(a) Cotton spinning and weaving

There is a considerable market for cotton yarn and cotton substrates of various qualities in Western and Eastern Europe and the United States, but cotton textile activity has decreased in Egypt. There is a steady decline in the mill consumption of cotton, and an increasing use of synthetic fibres to produce of blended yarns and fabrics (see table IV.6).

Table IV.6. Spinning and weaving production

Product	Unit	1990/91	1995/96
Cotton yarn	000 ton	306	250
Cotton textiles	Mn LE	1 375	1 561
Wool yarn	000 ton	20	16
Wool textiles	Mn metres	23	12
Synthetic textile	Mn LE	108	129
Jute yarn	000 ton	24	20
Jute textile	000 ton	24	20

Source: CAPMAS, 1997.

Reportedly, most cotton enterprises are unprofitable. Their losses are absorbed by the Government to avoid firing workers and overburdening the labour market. Nevertheless, a growing proportion of the cotton manufacturing sector is being privatized, and the new owners are rationalizing production by reducing the work force and upgrading the machine portfolio to meet quality and efficiency standards.

Egypt's available spinning capacity is characterized by lack of investment in new machinery and poor maintenance, resulting in high levels of down time, lower productivity and poor production quality. According to the International Textile Manufacturers Federation (ITMF) data, Egypt's available spinning capacity consists mostly of ring spinning frames, of which a large proportion are short staple, cotton spinning spindles. There are few open-end frames to spin cotton suitable for the weaving denim fabric.

The available weaving capacity (see table IV.7) also shows lack of investment for a considerable period of time. Many looms are the old-fashioned and inefficient shuttles. The standard in other developing countries is the swifter and more efficient shuttleless types, which improve quality and automation, and raise productivity.

Table IV.7. Structure and installed capacity of Egypt's textile industry

Spinning *	1995	1996
Ring spindles	2 925 000	2 988 000
Open end	41500	41 200
Capacity utilisation	7 500	7 500
Weaving		
Shuttle	13 000	13 000
Shuttleless	2 960	2 560
Capacity utilisation **	7 500	7 500

Source: ITMF, 1997.

* Public sector only.

** Hours worked per active spindle/year.

Table IV.8. Hourly labour costs in the textile industry in selected countries, 1993 and 1995 (US dollars)

Countr y	1993	1995
Brazil	1.48	1.98
Egypt	0.57	0.68
France	16.47	17.75
Israel	7.2	7.28
Malaysia	1.18	2.45
Philippines	0.78	1.06

Source: Werner International Inc.

Egypt's public and private weaving operations are generally characterized by overstaffing, in spite of efforts to encourage investment in new capacity and automation. However, the wage bill is low and compares favourably with labour costs elsewhere (table IV.8).

Synthetic textiles is the fast-growing segment of textiles in export markets due to increased utilization in diversified segments ranging from automobiles (airbags, cars' interior), to health care and leisure (sport equipment, sportswear). However, Egypt does not have a competitive advantage in the production of synthetic textiles. The spinning and weaving of synthetic fibres is very capital intensive, and the dyeing, printing and finishing sectors need to be developed to support the move towards high value-added man-made fibre products both in textiles and clothing. Other developing countries, such as Thailand, also have bottlenecks

in developing technological capabilities in these sectors.²⁷ So far, Egypt's competitive advantage lies in the production of fine cotton goods.

(b) *The wool manufacturing industry*

The wool manufacturing sector in Egypt is small compared to cotton. The annual mill consumption of wool fibre (clean basis) has been estimated around 7,000 tons, much of which has to be imported.²⁸ Local supplies come from Egyptian sheep, notable for the primitive breeds and foals and coloured fleece wool, which for textiles terms is of low utility and low value. Finer qualities are usually required in textile production, even for floor coverings; white fleece wool is generally required for knitwear and woven fabrics (so that finished dyed shades can be achieved without variation). Therefore, the wool manufacturing sector does not rely on domestic resources as does the cotton sector.

(c) *Garments*

Garment manufacture is a prominent industrial activity in Egypt, and is growing swiftly on the strength of its domestic textile industry and its high quality of cotton.

The manufacture of made-up finished products is a labour-intensive activity: it involves a sewing machine and a ready supply of machine operators. Lay planning, cutting and packaging are probably the only processes which can be automated easily. In addition, a variety of labour skills are required in garment manufacture (depending on fabric, stitching, and style). The global clothing industry has moved the sites of the various activities in the manufacture of garments to a number of different locations in order to combine the advantages of low-cost labour and necessary skills. Retailers and end-market suppliers, particularly those in Europe, are exploiting outward-processing strategies in countries located around the Mediterranean basin. In this respect, Egypt has a competitive location for a number of garment suppliers (and this is reflected in the recent growth of approved investment projects).

However, Egypt could attract further FDI. Potential investors interviewed by UNCTAD stated that while sampling made in Egypt is excellent, the lead time does not meet required standards. Strategically, investors tend to play safe, by limiting the activities they establish in Egypt to those that have the least risk (Box IV.5).

Investors in the new industrial areas or new communities also express concerns. While in the new industrial sites, the basic requirements of power, water, roads and telecommunications are provided, these essentials however tend to be inadequate, requiring additional investment cost (e.g. water, sewage) particularly critical to textile production. In addition, because of lack of services (restaurant, schools, entertainment) or family ties, workers prefer to live at home and not in the new communities, so firms have to bus their employees long distances, sometimes up to 2 hours away. Improvement of the railroad, would alleviate transportation costs and reduce the time lost in traffic jams. In some cases, such as for example, the industrial site of New Borg El Arab, this could be easily accomplished since the railroad is already in place.

²⁷ Nipon Poapongsakorn and Pawadee Tonguthai (1998) "Technological capability building and the sustainability of export success in Thailand's textile and electronics industries" in Ernst, Ganiatsos and Mytelka *Technological Capabilities and Export Success in Asia* Routledge.

²⁸ PCI/Kidson Research.

Box IV.5. A joint venture in garment production

A large European textile concern had invested considerable sums with its joint venture Egyptian partner in a range of finishing capacity with the aim of differentiating substrate fabrics produced in Egypt, in order to produce elsewhere a range of mass volume, lower market apparel goods destined for European markets. The Egyptian firm concerned acts as a stockholder, and has six-month lead times, which are very long compared with the brief lead times of Western European clothing manufactures - often of only two to three weeks. In the context of this venture, a very considerable investment in Egypt thereby posed little risk.

However, it allowed the European firm a foothold in Egypt as a potential springboard for the nearby developing markets in the Gulf and African regions, in the short and medium term. It also provided the European firm an entry into some Eastern European markets with whom the Egyptian firm had developed close working relations.

Source: UNCTAD survey, 1998.

2. Investment opportunities

Egypt is one of the largest growers of cotton fibre and produces a third of the world's finest cotton. Thus, Egypt has a competitive advantage in the production of fine cotton goods which require high-grade cotton (i.e., "extra-long staples"). These products command premium prices in international markets.

Table IV.9. Egyptian textile production profile, 1995 and 1996
(000 tonnes)

Fibre consumption	1995	1996
Cotton	280	210
MMF	35	32
Other	21	19
Spinning production		
Cotton	214	200
Cotton rich blends	17.6	18
Other	40	39
Woven production	100	390
85% + cotton	13	85
Cotton rich blends	15	15
Knitted fabrics	1.6	1.23

Source: ITMF, 1997.

Table IV.10. Growth pattern of Egyptian textile and clothing trade with the European Union ^a, 1986 and 1995
(Thousands of Ecu)

Trade	1986	1995	1986	1995
	<i>Imports</i>		<i>Exports</i>	
Textile	50 743	87 472	102 008	299 725
Clothing	15 251	26 702	15 603	134 885
Total	85 994	114 174	117 611	434 610

Source: Eurotex, vol. 97/4

^a 12 member countries.

However, farmers are planting less cotton and are shifting production to more valuable cash crops such as vegetables and soft fruits. The resulting fall in acreage has been exacerbated further by a drop in cotton yields. Cotton prices were liberalized in 1996, and some recovery in the volume of agricultural cotton production is possible in the short to medium term (see table IV.9). Thus, a revival of cotton production is important for future investment in the textile industry.

The main market opportunity is to improve the exporting profile of Egypt's textile industry and to exploit its relative proximity to Western Europe, particularly the European Union. The United States also has a large market for Egypt, but trade barriers to this market are higher than those of the European Union. Egypt is negotiating free-trade agreements with both the United States and the European Union.

Outward processing FDI is a logical starting point for targeting European investment. These are investors interested in establishing export-oriented clothing manufacture in Egypt. Already, this strategy has represented the most swiftly growing export activity between Egypt and the European Union between 1986 and 1995 (table IV.10). Textiles remain Egypt's most valuable export earner, although the rate of growth appears to be slowing in comparison to exports of clothing to the European Union.

In spite of the evident growth in exports of textiles and clothing, Egypt has to maintain a competitive advantage with similarly advantaged neighbours, such as Morocco and Tunisia. Egypt exports more textiles than Morocco and Tunisia; they are far ahead of Egypt in the export of clothing (see table IV.11).

Increasing competition also comes from Turkey, where there is a growing, sophisticated and well-equipped industry, and from newly developing business in the Eastern Europe and the Central Asia and hinterlands. Greece and Israel are other sources of competition. Probably the greatest threat to Egypt's trade with Europe comes from Eastern Europe, where the European Union gives preferential assistance to some countries.

Table IV.11. Comparison of Egyptian textile and clothing trade to the European Union^a with that of Morocco and Tunisia, 1996
(Thousands of Ecu)

Trade	Egypt	Morocco	Tunisia
		Imports	
Textile	78 867	838 310	966 167
Clothing	42 371	178 074	332 343
		Exports	
Textile	245 647	79 569	100 966
Clothing	161 315	1 674 709	1 877 575

Source: Eurotex, Vol 97/4.

^a 15 member countries.

3. Policy implications

The Agreement on Textile and Clothing provides for a phasing out of all restrictions of the current agreement on textiles and garments and the integration in four stages of the textiles sector into the GATT 1994. Egypt has already submitted to the Textiles Monitoring Body (the Authority responsible for supervising the implementation of the Agreement and reviewing all procedures within the WTO) a list of the textiles to be liberalized in the first stages. By January 2005, all phases of the agreement should be completed and all restrictions lifted.

There are concerns about the full implementation of the agreement in Egypt. Some have voiced its postponement questioning the ability of the textile industry in Egypt to compete efficiently and meet the liberalization challenge. The advocates of such views fear mainly an oversupply of textile and ready-made garments in the domestic market, financial difficulties for domestic producers, and the absence of local production improvements to meet export requirements.

Other trade agreements also move in the direction of trade liberalization. According to the 1997 Cooperation Agreement with the European Union, the main trading partner of Egypt in textile goods, Egyptian textile and clothing products should have duty-free access to the European Union markets, apart from cotton yarns and fabrics, which are subject to quota restrictions.

To gain export competitiveness, the Egyptian textile industry should attract new investments and upgrade technology. International market restrictions are an obstacle, but the main constraints are due to domestic factors. In addition to improvements needed in infrastructure, enterprises engaged in large volumes of intra-company trade, find the importing and exporting process to be time consuming, and see a need to improve customs clearance and quality-control procedures. High transaction costs have an impact on the exports competitiveness. For example, in knitwear, Egyptian manufacturers generally require a lead-time of two to five months compared with only 15 to 25 days for firms from Brazil. The difference in this lead time can erode Egypt's advantage of its proximity to Europe.

While cheap labour is an advantage, high skills and productivity are necessary to maintain competitiveness on a long-term basis in international markets. Egypt has to ensure a sustainable competitive advantage through better management, increased productivity and by improving the standards for the textile industry, which would require new investment in machinery and maintenance and in management and marketing capabilities. To improve quality, the establishment of research in textile and training for employees are important, as well as strengthening business support services in areas such as information and marketing.

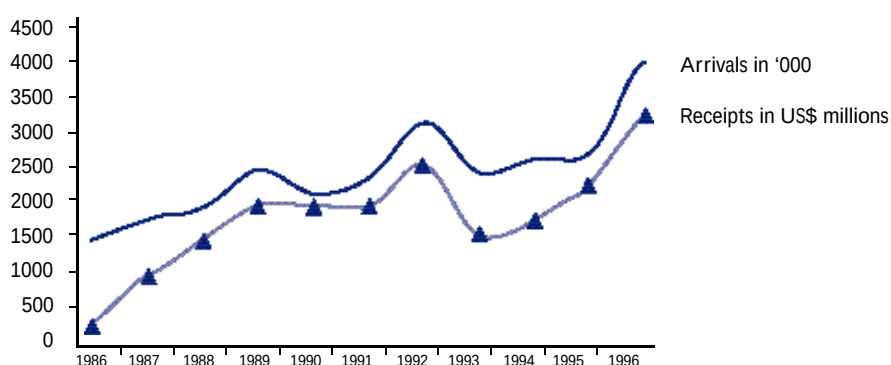
C. Tourism

Egypt has some impressive assets in tourism. It has several 'must-see' locations, including the only remaining Wonder of the Ancient World - the Great Pyramid of Cheops at Giza, the wonders of Aswan and Luxor, desert locations, sea coasts, an outstanding museum in Cairo and Nile cruises. Egypt is close to the main tourism-generating hub of Europe and has good inter-continental linkages with Japan and the United States. Egypt also has a long tradition of international marketing of its tourism assets and international projection of its cultural wonders is not difficult.

The problems of tourism in Egypt relate to safety, difficulties in developing segments of the tourism market other than cultural tourism, the high transactions costs for visitors and training. It has had a roller-coaster ride - after each terrorist incident, inward tourism plunged to very low levels and then recovered again.

The change in the country's economic orientation together with the signing of the Peace Agreement in 1973 brought increased investment. The number of hotels increased, servicing facilities sector improved and the number of tourists rose substantially compared to previous decades (figure IV.1).

Figure IV.1. International tourist arrivals and receipts in Egypt, 1986-1996
(Thousands and millions of US dollars)



Source: Ministry of Tourism, except for the tourism receipts for the period: 1986 -1991 from OSAF (Office for Studies & Finance, S.A.E).

This was also assisted by the gradual liberalization of civil aviation policy and efforts towards diversification of tourism from a cultural to a leisure and cultural attraction combined. Between 1985 and 1989, tourism measured by the number of international arrivals, grew on average by about 13.6 per cent per annum, much higher than the world tourism growth rate of 5.9 per cent during the same period.²⁹ Tourism income from being the smallest contributor to foreign-exchange earnings of about US\$ 300 million in 1986, climbed to US\$ 3.3 billion in 1996, becoming the single largest earner of foreign currency.

In addition to the significant increase in international tourist arrivals which grew from 3.2 million in 1992 to 4.1 million in 1996/97 (the last two peak years), domestic tourist traffic is estimated at about another 2 million.

²⁹ International Tourism Report No. 1991, Economist Intelligence Unit.

Although the losses incurred from the Luxor incident in November 1997 are significant, they do not seem to be as severe as anticipated and the recovery of tourist flows is well under way, according to a recent study conducted by USAID. The largest losses from revenues in tourism as a share of GDP amounted to 2.4 per cent in 1998. Forecasts indicated a drop to 0.8 per cent of the GDP in 1999 and only 0.05 per cent in the year 2000. Several factors have mitigated the severity of the impact on the Egyptian economy including the diversification of products and markets, image building and several new policy measures introduced to attract private investment. One of these measures is the BOT system that allows the private sector to establish four new airports.

The tourism sector is now estimated to account for between 2 and 4.7 per cent of GDP. Tourism development has had a substantial impact on direct employment in tourist establishments and on employment in other sectors such as transport, food industry, textiles, cottage industries and the small-scale informal sectors in manufacturing and services which are particularly labour intensive. This is relevant to unemployment and the need to redeploy redundant labour from the government and public-owned enterprises. Direct and indirect employment in the tourism sector is estimated by the Government at 1 million (implying a tourism employment multiplier of 2.5).³⁰ About 17 per cent of the work force in tourism are women, which is higher than the national average of 12 per cent.

The tourism industry is expected to become the largest source of world export revenues by the next century. In 1995, according to the World Tourist Organization, international tourist arrivals numbered 567 million with revenues of US\$ 373 billion. The Middle East* accounted for only 2 per cent of arrivals (11.1 million) and 1.8 per cent of receipts (US\$ 6.7 billion) in the global tourist market. However, the Middle East has witnessed the fastest rate of increase in arrivals since 1990, led by Egypt which now accounts for more than a third of inbound tourist flows to the Middle East. The World Tourist Organization forecasts that tourism to the Middle East as a destination will surpass the world average.

1. Market structure and investment patterns

A significant part of investment in the tourism sector has been undertaken under the investment law which is monitored by GAFI. The fastest growing subgroup of tourism projects are tourist villages, tourist complexes and entertainment cities, as opposed to individual hotels. There are now as many as 205 tourist villages under implementation (21 in operation) at a total investment cost of LE 9.4 billion and 21 tourist complexes also under implementation (four in operation) at an investment cost of LE 3 billion. Whereas the total investment cost of tourism projects in operation was 14 per cent of aggregate investment under various sectors of economic activity in mid-1977, the share of the tourism sector has grown to 34 per cent of estimated investment for all projects under execution.

(a) *The hotel market: ownership, management and profitability*

In 1996, the total number of hotels registered by the Ministry of Tourism was 789, of which 486 were hotels, 215 floating hotels, and 88 tourist villages. The total hotel capacity in that year was 70,471 rooms and 140,741 beds.

Hotel accommodation varies, with a sharp increase in hotel capacity along the Red Sea. There are three trends that have characterized the period since the early 1970s, when the total number of four-and five-star hotels was limited to about two dozens, entirely owned by the public sector and managed mostly by TNC

³⁰ Other estimates place the indirect employment multiplier for tourism at 3, with total employment from tourism at 1.4 million (Samia Fawzy, "The tourism industry in Egypt", mimeo, 1998).

* According to the WTO classification of regions, the Middle East includes Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Oman, Qatar, Saudi Arabia, Syria, the United Arab Emirates and Yemen. World Tourism Organization (1998). Annual Report.

chains. The first trend was the investment of domestic private capital in hotel construction and travel agencies. The second was Arab investment, especially from Kuwait and Saudi Arabia towards the establishment of four and five star hotels, mostly with foreign management, as well as in the purchase of state-owned hotels under the privatization programme which started in 1991. The third was reputable TNCs in the hotel market entering into agreements with private domestic entrepreneurs to manage and sometimes participate in the design and equity of hotels.

Private Egyptian capital was first encouraged to set up tourist related investments under Law no.1 of 1970 which provided the tourism sector with a number of significant concessions and incentives that were applied to both domestic and foreign investors. These included a minimum five-year tax holiday, exemption from tariffs on imported hotel and transport equipment and furnishings, low-cost land in virgin locations and easy credit terms provided by specified banks including the Industrial Development Bank. The first wave of investments was in the middle class range of hotels, in floating hotels and in the import and operation of tourist buses and limousine services. Even a number of restaurants and fast food chains were able to take advantage of the fiscal concessions so that by the mid-1980s, Egypt had developed a highly diversified range of tourism-related facilities and demand was surpassing the rate of supply.

The role of FDI is important in the tourism sector across all its segments. The majority of the 92 four- and five- star hotels are operated by international hotel chains which typically have management agreements with domestic and Arab owners. There are now at least 20 such international chains across Egypt, 12 of which operate four or more hotels. Management is delegated entirely to the international chain, which recruits Egyptian professionals to serve in top management and applies its detailed organization and management procedures. A few other TNCs have entered into either part ownership agreements (for example, French Accor) and hotel leasing (such as French Club Méditerranée).

(b) Tourism-related services

A recent assessment of the tourism cluster³¹ shows the strengths and weaknesses of the support services which make up the tourism industry. Hotel capacity has doubled in less than 10 years, and the number of restaurants and cafeterias has increased 1.5 times from 1989 to 1994. The four- and five star- category predominate, but the one- and two star- restaurants, need significant upgrading, especially outside of the large governorates (Cairo, Alexandria, Giza and Canal Zone).

The number of travel agencies has grown significantly with an increase in their turnover from LE 158 million in 1985 to LE 1.3 billion in 1995. General transport services are extensive but the quality of the public sector buses and private taxis are a subject of tourist dissatisfaction according to CAPMAS survey. However, the government's incentives to tourist transport companies has had a very positive supply response, with a current fleet of 6,652 tourist buses and 1,002 rental cars. The country boasts 15 airports serving 53 international airlines, but domestic flights are monopolized by the national carrier, and there are complaints from tourists about the inadequacy of services and the common problem of delays.

TNCs in the travel agencies and transport services are well represented in Egypt, mostly through their correspondent relations with domestic enterprises. TNCs have contributed to the quality of Egyptian tourism services, providing the pool of Egyptian trained personnel with the most sophisticated tools for the management of information and package tour operations. The market for hotel business and tourism services is in general highly competitive, with a very large number of actors across locations, nationality of ownership and management and level of services provided. Entry into the market has been relatively easy, except for obtaining long-term credit for large scale and high cost projects. This feature has discriminated in favour of the large Egyptian-owned ventures which, with their successful track record, can secure funding from national and international financial institutions against their collateral. Today, there are a dozen such promi-

³¹ S. Fawzy, op.cit., 1998.

nent players in the Egyptian tourism market, all domestic private capitalists who started their operations in the 1970s and 1980s. Their rapid growth in the tourism sector can be attributed to their success in diversifying into new segments of the tourism product, appropriate combinations in the supply of facilities to cater for local alongside foreign tourism demand, and entering into alliances with TNCs in the hotel and/or agency business.

The government has undertaken several development activities related to tourism services, which include: improving on the existing airports and adding new terminals, and the construction of new airports; the construction of a huge new centre for the production of movies and television programmes; building up the Nile TV and the Egyptian Satellite channels as international channels hosted by Egypt; and encouraging international sports tournaments, conferences and exhibitions, film and music festivals; (e.g. the ASTA conference which was held in Cairo in September, 1992; the African summit held in June, 1993; the International Conference for Population and Development (ICPD) 1994; the Peace conference in Sharm El Sheikh in March, 1996; the Arab Summit in June 1996; and the MENA Economic Conference in November, 1996).

Cairo has long been considered as a major financial and commercial centre in the Middle East and thus attracts significant numbers of business travellers. Cairo is also the seat of several key regional and Arab organizations which host regular meetings and conferences. With the vastly improving investment climate and regional relations, business travel has been significantly enhanced. Given the importance of media advertising as Egypt's a window for the world, the Government has allocated US\$ 40 million for global advertising. The media's role is demonstrated by how it overcame the temporary downturns and setbacks experienced by Egypt's tourism market as a result of terrorist attacks in the past five years. Television and newspaper coverage of Egypt as a travel destination will continue to broadcast its positive image to the world.

2. Investment opportunities

The key element of Egypt's strategy for the growth and development of tourism is to diversify from the one-time visits to cultural sites towards leisure and recreational tourism which involves repeated visits and has so far been hardly exploited. The Government thus plans to support the development of infrastructure in a number of new locations to attract beach tourism, especially in the governorate of Sinai which is targeted to enjoy an increase in hotel capacity of 200,000 by the year 2017. Another element to Egypt's long-term tourist strategy is to attract a larger share of tourists from tourist generating countries which are still poorly represented. To date, the number of visitors from Japan, South-East Asia and the United States are still insignificant in Egypt as compared to the potential these countries have.

Egypt is also striving to increase its receipts from tourism at an even faster pace than arrivals, both by encouraging longer stays per average tourist and by offering up market services that increase the average expenditure per tourist. In 1995, Egypt's share of world tourism revenues (0.7 per cent) was already well ahead of its share of tourist arrivals (0.5 per cent), evidence of the above average expenditure per tourist. And yet, Egypt's average income per tourist is still below that of several destinations in neighbouring countries. Average tourist receipts are estimated at US\$ 599 for Middle East destinations (according to 1995 WTO figures), with the highest receipts per arrival recorded by Lebanon (US\$ 1 766) as compared to Egypt's figure of US\$ 862. The goal is to promote additional recreational facilities that result in longer tourist stays and larger expenditures per tourist.

Table IV.12. shows that the tourist income multiplier for Egypt (at 1.23) is not particularly high (it is equivalent to that of Jamaica, and well below that of Turkey). This illustrates that there is room to increase tourist spending, and to retain more tourist expenditures within Egypt. Egypt is also trying to provide conference facilities, to draw more tourists. The Government is also pursuing the goal of encouraging the growth in incentive tourism, health and spa resort development and safari-related tourism packages.

Table IV.12. Tourist income multipliers
(Percentage)

Destination	Tourist income multiplier
Fiji	0.72
Hong Kong, China	1.02
Cyprus	1.14
Dominican Republic	1.20
Jamaica	1.23
Egypt	1.23
Ireland	1.72
United Kingdom	1.73
Turkey	1.96

Source: John E. Fletcher (1989) "Economic Impact" in S. F. Witt and L. Moutinho, eds. *Tourism Marketing and Management Handbook* (2nd Edition), London: Prentice Hall, p. 476.

Another component of Egypt's strategy is to draw tourists to underdeveloped regions in Egypt. The plan is therefore to develop more of the archaeological sites in regions of low tourist concentration such as some governorates in Upper Egypt and to provide adequate transport and infrastructural facilities to encourage tourist visits to such underdeveloped regions. The target is to increase hotel capacity by 4000 rooms in the Northern half of Upper Egypt by the year 2017.

Egypt's ranking among the world's top tourism destinations rose from 41 in 1985 to 36 in 1995, but its achievement is still well below that of neighbouring countries in the MENA region such as Tunisia (rank of 30 with 4.1 million arrivals) and Turkey (rank of 21 with 6.5 million arrivals). Given Egypt's tremendous attraction as a cultural tourism destination and its untapped potential for attracting beach tourism to its 2,700 km coastline, it is clear that the growth trend of the 1990s in tourism demand and supply could continue over the foreseeable future. One feature that gives Egypt an advantage over other tourist destinations on the Mediterranean is its significantly longer period of mild weather, at 9 months of the year.

Although Europe is considered a mature tourist-generating region with relatively low growth potential, there is tremendous potential for attracting European tourists to the Middle East and to Egypt in particular. One factor is the shift in European tourist demand from short-to long-haul destinations and the other is the fast shift from cultural to beach tourism as expected over the next few years.

In the short-run, the Government has set a target for Egypt to achieve 6 million tourists by the year 2000. This target is substantiated both by WTO forecasts and by local consultants. The target is also in line with growth trends of the past three years and with significant growth on the supply side. The WTO forecasts an increase in global tourism from 3.9 million in 1995 to 660 million tourist arrivals by the year 2000. According to OSAF (July 1996), the share of the Middle East is expected to grow from about 1.9 per cent in 1995 to 2.3 per cent in the year 2000 and 3.3 per cent in 2010, while Egypt's share will rise from 0.5 per cent in 1995 to 0.9 per cent in 2000 (6 million arrivals) and 1.5 per cent (14 million arrivals) in 2010.

Over the coming 20-year period, OSAF consultants in fact do not expect a levelling out of the recent growth achieved by Egypt, a growth which is led by demand and supply trends for beach tourism and is concentrated in the Gulf of Aqaba and the Red Sea. The government's long-term strategy report estimated growth in tourism revenues is from the level of US\$ 3.4 billion expected for 1996/97 to a level of US\$ 32.4 billion in the year 2016/17. Egypt's long-term vision is for a tenfold increase by the year 2016/17 in hotel capacity and tourism revenue.

Large scale tourism developers are increasingly being attracted by the Government to undertake the development of blocks of seaside lands for which they can provide and operate the infrastructure, plan and

commercialise subprojects for investors and themselves implement and own parts of. A good example is the Riviera Resort, a major tourist site to be developed over an area of 7.7 million square meters, south of Taba, and extending over 9.2 km along the Gulf of Aqaba. This project, which is not included in the approved capacity estimates of the medium term, would alone provide an additional 14,000 rooms to attract 900,000 additional visitors by 2005. This would further grow to 17,000 rooms attracting 1.3 million guests by the year 2010 according to a realistic scenario.

In terms of attracting increased FDI, the preferred form of foreign involvement in hotels is through management contracts. Indeed, Egypt attracts two distinct types of foreign involvement - asset investment in the form of ownership of hotels - largely from other Arab investors and management (sometimes with ownership) contracts from Western countries. Management contracts enable the foreign company to exercise control over the asset without ownership and often the hotel (asset) is sold 'loaded with the contract' (i.e. the contract remains in place after the ownership changes. There is a great need to upgrade the management of hotels and other tourist facilities in Egypt. Therefore, the management of many of the historic sites and attractions would benefit if their operations were subcontracted. Specific investment promotion policies should be devised to facilitate international management contracts in the tourist industry.

3. Policy implications

A number of reforms are under way to support tourism development.

(a) Privatization

A major component of the Government's privatization programme is in the tourism sector, including the sale of single assets or packaged assets to investors and the sale of tourism companies on the stock exchange. The Holding Company for Housing, Tourism and Cinema (HTC) currently has 4 affiliated companies in the tourism sector, each of which owns a number of large hotels in Egypt. HTC is also a partner in more than 20 joint venture companies in tourism. The number of hotels to be privatized includes eight in Upper Egypt (4 in Aswan and 4 in Luxor), seven in Cairo, three in Alexandria, two in the Red Sea area (Hurghada Sheraton and Ain Sokhna), and two in Sinai (Dahab Helnan and El-Arish Oberoi). Several of these hotels are managed by international chains such as Accor, Club Med, Helnan, Hilton, Mercure, Oberoi and Sheraton (see table IV.13).

A variety of privatization styles are used. Assets are sold to an 'anchor investor', sales are made via IPOs on the stock market or assets are partially sold to a strategic investor. The Holding Company aims to promote the business/ organization to be sold and aims both to improve the assets before sale and to package the assets into an appropriate form for sale. The holding company's executives say that they do not differentiate between domestic and foreign investors, that they aim for complete transparency. An attempt is made to "clean the house from inside" before sale. This involves preparation of the assets and training of personnel. In the case of hotels, the physical assets may be sold loaded with the appropriate management contract.

Table IV.13. Privatization activity of the tourism sector, 1998

Hotel	Privatization	Methods of privatization
Cairo Sheraton	1996	Sold as a company
Le Meridien	1993	Sold as an asset
El Borg	April 1998	Sold as an asset
San Stefano	Offered in April 1998	Not finalized
Nile Hotel	Offered in April 1998	Not finalized

Source: Holding Company for Housing, Tourism and Cinema (HTC), 1998

(b) Protection of the environment

In order to be economically sustainable, tourism development must be environmentally sound. Both the Government and private-sector developers have an essential role to play in establishing and applying conservation standards and policies. This is true of Egypt's cultural heritage as well as its natural wealth. The Government must enforce strict planning regulations to preserve historical sites and conserve the existing ecological balance in newly developed coastal areas. The absence of sufficiently trained local authorities has resulted in the decline of the environmental quality of a major beach tourist site at Hurghada and of Egypt's historical Pyramids Road in Giza, as well as in major problems of traffic congestion in some key historical areas. The Government, including central and municipal departments must engage in a campaign to rally all those in the tourism sector with the slogan that Egypt is marketing the world's cultural heritage and is one of the world's most unique and attractive destinations.

The lack of regulations to ensure environmental sustainability and avoid the deterioration of tourist sites has resulted in a number of sea side developments and cultural sites becoming of substandard quality because of overbuilding, with structures built too close to each other and with no limits to height. With respect to the future, it is of paramount importance that all competent authorities responsible for allocating land and providing construction permits adhere to strict enforcement of urban plans and well-designed land use plans for recreational resorts.

(c) Security and safety of tourists

Egypt's tourism industry promises to be the leading growth sector in the next two decades, as it captures its rightful place on the Mediterranean tourist map. The disruptions to the overall growth trend in demand as witnessed by the large cyclical fluctuations over the 1980s and 1990s (see figure IV.1) have mostly been caused by internal problems (with the exception of the Gulf War). Terrorists attacks aimed at tourists have damaged entire tourism seasons and threaten to give Egypt a growing negative image of insecurity to foreign visitors. It is estimated that overall occupancy is currently 60 per cent of that same period in 1997, five months after the worst of terrorist attacks on tourists occurred in Luxor in November 1997.

The Government of Egypt has shown its clear resolve and determination to provide increased protection both for tourists and for Egypt's invaluable cultural sites. Improved security measures in airports, hotels, tourist buses and tourist sites are essential in minimizing the opportunity for criminal activities. Another policy is to give a larger stake to small and micro enterprises in tourism-related manufacturing and services, especially in those tourist regions where the incidence of poverty and unemployment is high. Such a policy would raise awareness of the value of tourism to livelihoods.

On the supply side, both Egyptian and foreign investors have to accommodate themselves to the cyclical fluctuations in occupancy rates: many feasibility studies for tourism projects have calculated that one in four years is a bad year for the estimates of cash flows and rates of return. Some regions such as Luxor which are exclusively dependent on cultural tourism have witnessed much sharper downswings in tourist visits throughout the past decade. In 1994, Luxor experienced a decline of 13 points in its occupancy rate and a much larger decline in the Autumn of 1997 as a result of the attack in November. In contrast, Sharm El-Sheikh – a purely "Sun and Sea" tourist location – has consistently recorded one of the highest occupancy levels of any market in Egypt or the Middle East. The overall occupancy rate in south Sinai has ranged between 75 and 82 per cent between 1994 and 1996.

There are a number of proactive measures that are valuable in reacting to the threats of terrorist attacks. One is for the tourist business community to better manage the foreign press and specialized media to improve the demand response during difficult times. Another useful step is for local tourist agencies and hotels to forge better links and alliances with their counterpart operators in tourist-generating countries.

Such closer links give an incentive to the foreign located agencies to step up efforts to reduce the impact of shocks and shorten the duration of down cycles.

(d) Employment and training policy

Staffing flexibility is needed to respond to seasonal shifts in demand and to the volatile nature of the business. However, the dismissal of workers is an extremely time consuming and difficult process. If the tourism sector is to be developed and managed efficiently, a flexible employment policy is required combined with an adequate compensation framework to maintain social stability.

One of the problems encountered by tourists is the overall deficiency in the quality of tourist services at many of the traditional cultural sites. According to a survey of tourist satisfaction, areas of deficiency included the level of cleanliness and hygiene, the quality of guide services and the variety of tourist souvenirs.³² Significant improvements are needed in the system of garbage collection, training and certification in hotel and restaurant services, as well as the expansion of language schools to cater for the needs of specific nationalities that are increasingly being targeted.

(e) Pricing and marketing policies

The Ministry of Tourism rates all tourist establishments and approves the prices for services. Hotels are allowed to give discounts to groups and travel agents. Egyptian nationals and residents are given a mandatory discount of 50 per cent to encourage domestic tourism, which is now accountable for about 24 per cent of hotel occupancy. Until 1992, tariffs were set at levels that were based on the lowest performers, which promoted inefficiency within the sector. In April 1992, the ceiling on prices of each grade of hotels was removed by Ministerial decree.

Public expenditure on marketing is important to ensure successful tourism promotion. Egypt's tourism promotion budget is still modest (about US\$ 20 million) (WTO, 1998). Well targeted publicity and media marketing of Egypt as a tourist destination are of paramount importance. In view of the large sales taxes that are imposed on hotel, restaurant and entertainment services in Egypt, the Government could find it profitable to allocate more resources to the national tourism promotion budget and recuperate larger tax revenues from tourism expenditure.

³² CAPMAS, 1994.

D. Electronics and information technology

The electronics and information technology industries encompass a vast array of products and applications. They are the fastest growing industries in the world and often the most dynamic in terms of product and process innovation and they provide impetus to the growth of other sectors. Exporters of high technology and information products and services include the economies of South-East Asia and China, and countries in Latin America including Mexico and Brazil. India has emerged as a world supplier of software services. Egypt has the potential to join these ranks. Egypt's electronics and information technology is an infant industry that is rapidly growing (see table IV.14).

Established in the early 1980s, by 1996 the industry had more than 400 firms engaged in electronics production and another 500 companies producing information technology products and services. The industry employs some 50,000 persons, and electronics alone contributes 6 per cent to industrial production and nearly 2 per cent to GDP.

Production is oriented around assembly operations and consumer products for the domestic market. The Government is the large buyer and user in the market, but there are many suppliers and competition is fierce. According to an UNCTAD survey, local producers have weak links with TNCs, and manufacturing is dependent on the import of electronics components which are not produced domestically. The impact of FDI has also been moderated by the pace and scope of the privatization process.

Thus, FDI could contribute to the further development of the industry in the following ways: injecting capital, raising productivity, deepening production into higher value operations and expanding exports.

1. Market structure and investment patterns

The structure of the industry in Egypt is presented in figure IV.2, and the different segments of the market are briefly examined in the sections that follow.

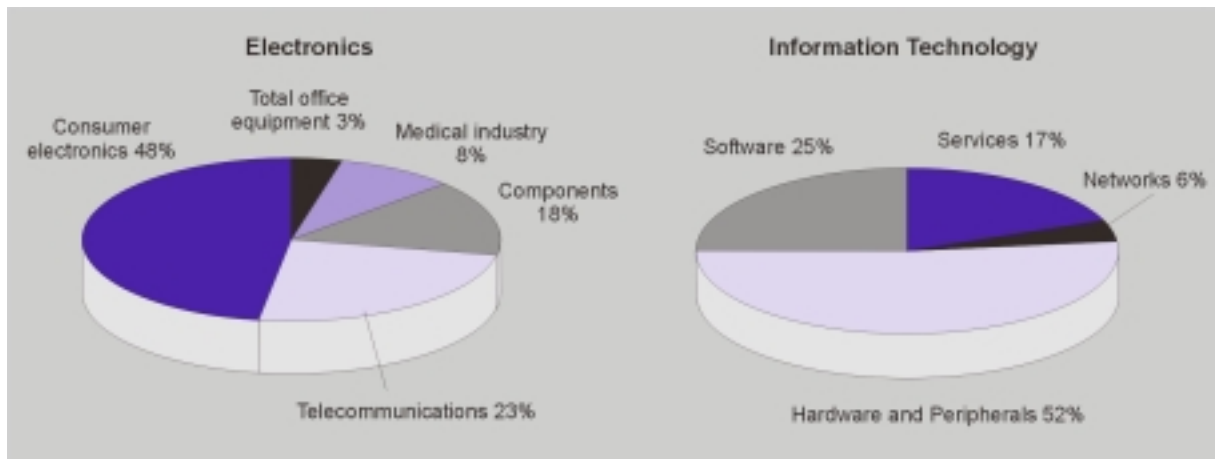
Table IV.14. Growth of electronics and information technology industry in Egypt, 1992-1996
(Millions of US dollars and percentages)

Indicator	1992	1996
Total production (million of dollars)	117	861.2
Electronics production as percentage of GDP	0.3	1.8
Number of companies in electronics	220	427
Number of companies in IT	n.a.	500
Number of employees in electronics	16 000	45 072
Number of employees in IT ^a	1 350	4 000
Productivity (per worker/year in thousand US\$)		
- in electronics	10.600	92.000

Source: Dataquest and IDSC.

^a Software only

Figure IV.2. Distribution of electronics on information technology by products in Egypt, 1995 (Percentage)



Source: IDSC, 1998.

(a) Electronics

The electronics segment of the industry manufactures consumer goods, office and industrial products and telecommunication equipment. In 1997, 200 large and medium-sized companies were established in this sector.

Transnational corporations entered the Egyptian market in 1980 with the set up of several plants in the new industrial cities (e.g. Goldstar, Panasonic in the Sixth of October). Typically they operated under licensing, such as the case of the Bahgat Group, which produces and markets Goldstar and Grundig products.

The tariff structure encouraged assembly operations. For example, until 1997, a duty of 80 per cent was imposed on imported television sets, and a duty of 10 per cent on imported components. The tariff structure has since been revised and a duty of 5 per cent is now imposed on imports of consumer electronics.

Reduced protection of the domestic market was met by improved quality and competitiveness of local production. Private sector and some TNCs in particular boosted the quality performance with the adoption of international quality standards (ISO 9000) and started to export consumer electronics made in Egypt. Although exports are small (about 5 per cent of total exports in 1996), they are following an upward trend. Egypt's dependence on imported components and kits, and the licensing requirements for brand name items, have tended to fragment the market and created a proliferation of consumer-end products. In fact, consumer goods electronics in Egypt represent 70 per cent of the total production in Egypt, while worldwide this segment represents only 22 per cent of the total world output.

Some TNCs produce consumer durables, such as Daewoo and the Research and Electronics Manufacturing (REEM) which is designing and manufacturing company electronics systems and their related software.

Egypt participates marginally in the production of the largest and fastest growing segments of the industry: office and industrial equipment. In the latter segment of the market, TNC strategies are often based on the development of regional integrated production networks. Xerox Egypt well illustrates such a strategy, showing how its Egyptian affiliate moved from segmented to integrated production of office equipment to cater for local and regional markets (box IV.6).

The free zones have yet to develop their full potential. Most of the projects (50 per cent) approved are for storage and warehouses and the average foreign capital registered is lower than that in inland projects. In addition, the share of electronics in total investment projects is about 15 per cent and subcontracting arrangements with TNCs are not actively sought by local investors. Among the free zones, those located closer to Cairo (such as Nasr City and Greater Cairo) enjoy better access to air transportation and other services support and because of that are preferred by foreign investors. Alexandria and Port Said, while offering proximity to ports and competitive sea cargo costs, do not offer adequate support services for foreign investors, including appropriate infrastructure (school, hospitals, recreational activities) for expatriates.

Incentives offered to foreign investors in terms of land and taxation are considered as attractive in the new industrial areas and communities as those offered by the free zones; and residential development and support services are offered in the new communities, such as Sixth of October and Tenth of Ramadan, which are located adjacent to established urban areas.

Based on these considerations, FDI in electronics has increased more rapidly in the new industrial zones and new communities than it has in the free zones (see table IV.15).

Private sector participation in the industry was encouraged by privatization of the main public sector companies. Telesmir one of the large public sector consumer electronics companies was privatized in 1996, followed by Nasr Electronics and Engineering in 1997. Telesmir shares were offered in the stock exchange and there was no record of foreign participation. Nasr group as of 1998 was still under the supervision of the Holding company for Engineering Industries, which is being restructured prior to privatization.

(b) Telecommunication equipment

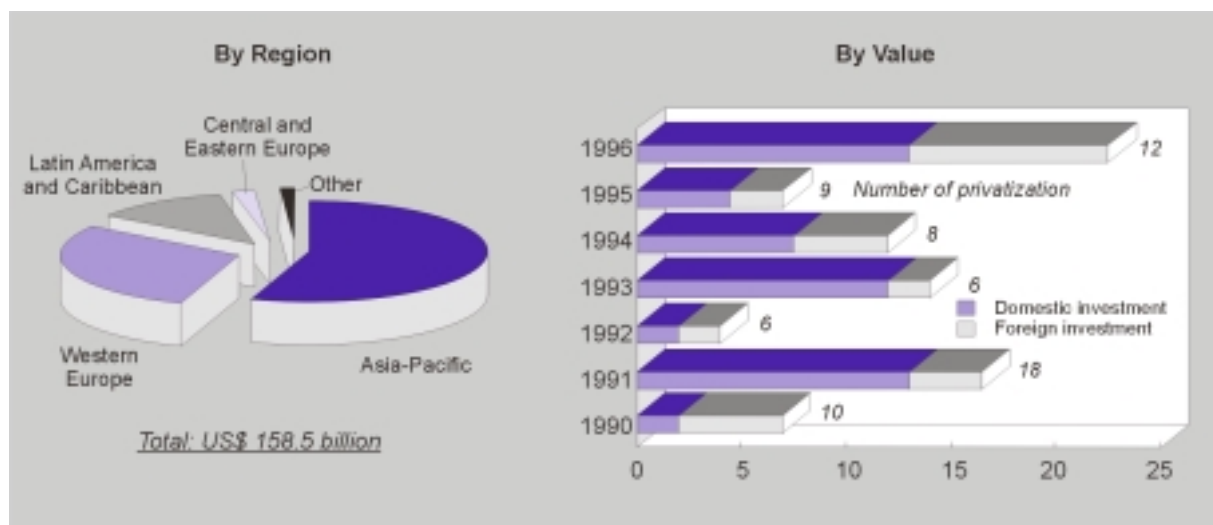
This segment of the market includes telephone sets, switching equipment, facsimile machine, data communication and transmission, broadcasting equipment and mobile communication. Thanks to the modernisation of government offices, large purchasing by banking as well as home consumption spurred by the vogue of new communication equipment, this segment of the industry has grown in importance to account for 33 per cent of total electronic market in 1996. This share almost equals that of telecommunication market in Israel, where it accounted for 35 per cent of its total consumption in the same year.

In Egypt, the fastest growing demand is for mobile telephones. Until recently, FDI was restricted in this area by the State monopoly on telecommunication. However, in 1996 the Government of Egypt privatized the state-run mobile telephone network and awarded a second private GSM license to the French carrier, Alcatel, to supply cellular phone lines. At the same time, Telecom Egypt has been, as a first step towards privatization. Telecom Egypt's assets are worth around US\$ 20 billion dollars and revenues were estimated at US\$ 774 million in 1996. Its privatization is expected to be launched by the end of 1998 through an initial 20-30 per cent sale. There will be scope for involvement of foreign investors, as it has been the case in most developing countries (see figure IV.3). Indeed, in developed countries the number of foreign investors in telecommunications can be very high. For example, in Germany more than 30 foreign entrants contest the market. Similarly, in the United Kingdom about 25 foreign companies either provide telecom services or have invested in equipment manufacturing (Bohlin and Granstrand, 1994).³³

Egypt suffers a severe shortage of available services and the growth in demand is exceeding supply. Waiting lists and average waiting time are well above world average. Only 70 per cent of demand is satisfied and there is a waiting list for new connections extends up to 5 years. Teledensity improvements take a long time and, according to best practices monitored by the International Telecommunication Union, vary between 3 and 9 years. While income is the underlying determinant of telecom improvements, it would also rely on increased investment that can be facilitated by foreign market entry.

³³ Erik Bohlin and Ove Granstrand, eds. (1994). *The Race to European Eminence* North Holland.

Figure IV.3. Telecom privatization in developing countries
(Billions of US dollars and percentage)



Source: International Telecommunication Union, 1998.

(c) Information technology

Egypt is the largest market for information technology suppliers in the Middle East, involving sales of about US\$ 200 million in 1996, mainly for personal computer and other system hardware. The hardware market is growing by more than 20 per cent annually, faster than the world market (see figure IV.4).

Thus, suppliers have an opportunity to expand operations and realize economies of scale. With adequate and aggressively priced products, reputable and well established local partners and a long-term outlook, several could become important players in the domestic and regional markets.

Table IV.15. Foreign direct investment in electronics: inland and free zone projects in operation, 1993 and 1997
(Number and millions of Egyptian pounds)

Item	1993			1997		
	Number	Investment		Number	Investment	
		Local	FDI		Local	FDI
Total	570	6 722	8 026	705	7 777	8 348
manufacturing projects						
Electronics	81	972	1 158	102	1 074	1 197

Source: GAFI, 1998.

Note: Total of projects (foreign and Arab investors) in operation inland and in the free zones at the end of calendar year.

Box IV.6. Xerox in Egypt: integrated regional production

Xerox has been operating in Egypt since 1978. It is the major supplier of office equipment ranging from laser printers to fax machines. In 1988, the Sixth of October plant was established as the only manufacturing and assembly facility of office equipment in the Middle East. It assembles almost all the products that are sold in Egypt and the new plant also began to export to Europe and the Middle East.

The company's revenues have doubled over the past 8 years and totalled US\$ 65 million in 1997. It aims for a 20 per cent growth rate in 1998. In 1997, 7,000 machines were exported, which represents a large share of Xerox's total production in Egypt. The main export markets are European and Middle Eastern countries.

Xerox has captured 45 per cent of the local market share and it is diversifying its product mix and offering more services to its customers. For example, it offers the Facilities Management, which is a turnkey solution offered to enterprises to ensure all document handling. Advance Business Systems and Systems for Software Solutions are also offered by the newly created Xerox Channels Group which is a partnership agreement reached with dealers and sellers of Xerox equipment. Xerox provides leadership to its business partners by providing strategic entry to new products and services.

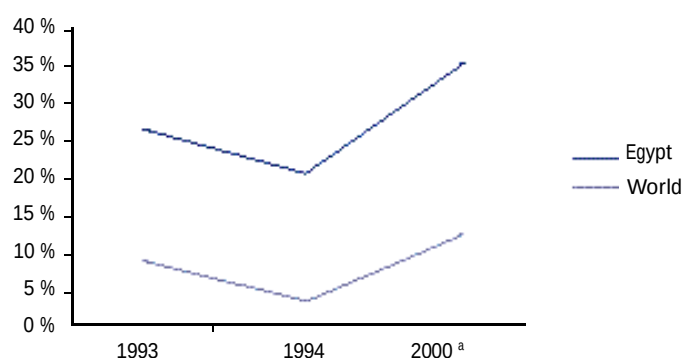
Xerox supports its business growth by a continuous investment in human resources development. The company currently employs 650 employees, 150 of which are in manufacturing. Xerox has its own training centre that offers managerial as well as technical training. There are 6 technical trainers and 4 full time management training groups. The company also sends employees abroad for higher level courses or for very specialized technical training. Xerox Egypt places managers to different countries around the world for instance the United Kingdom, Saudi Arabia, United States, Kenya, Morocco, and Dubai.

The company's organizational structure in Egypt is divided into business groups based on products' lines. The division managers are responsible for a group of products, covering all different stages of the product development going through marketing, pricing and advertising. The sales function is largely locally driven whereas the financial management and management development and training are integrated in Xerox's world-wide network.

Egypt is the strategic entry point into the Middle East market. Production plans have also been co-ordinated with that of other manufacturing units in Europe and Xerox Egypt stands to develop further its role in Xerox regionally integrated production network. Xerox production activities are in fact connected by functionally and geographically integrated teams, which are responsible for developing and introducing new products in all of Xerox's sales areas. Procurement is drawn by all Xerox affiliates and production is standardized to facilitate cross-plants interactions and cost-efficiency.

Source: UNCTAD survey, 1998.

Figure IV.4. Hardware market growth in Egypt, 1993-2000
(Percentage)



Source: Elsevier, 1998.

^a Estimate

(d) Software and support services

Egypt's domestic software sales were about US\$ 60 million in 1996 and exports were an additional US\$ 10 million, mainly to the Middle East. Out of a total of 500 computer companies in Egypt, more than 200 were vendors and developers of software, and of those, there are only 10 that export. More than 90 per cent of these companies are in Greater Cairo. The software industry employs some 4,000 professionals. Employment has risen by 35 per cent annually, and the workforce is made up of number of university graduates and the popularity of information technology among educated young Egyptians.

Egypt is an attractive location for multinational software companies. The main international companies are active in Egypt, with a strong presence of firms from the United States, including Microsoft, IBM and Oracle (box. IV.7). They are able to recruit software engineers on starting salaries of US\$ 300 a month. Oracle, a leading suppliers of database systems to both banks and the Government, employs talented technical support staff at US\$ 1,000 per month. Multinational companies also subcontract some data entry and software development to the local software industry.

The software development industry market in the Middle East is small but growing, 40 per cent in 1996-97. The market is large enough to warrant custom applications and an Arabic version of major international software packages is available, including Microsoft Windows which has become the major operating system for PC users in Egypt and most of the Middle East.

Egypt dominates the regional market. More than 80 per cent of software development in the Middle East is performed by Egyptians from Egypt or based in the Gulf. Arab companies such as Kuwaiti-owned Sakhr Software have started to use Egypt as a base to develop educational software products for the entire Middle East. Egyptian firms are also pursuing opportunities in the European market and it is the only Arab country participating in international exhibitions in Germany and the United Kingdom.

Piracy is a concern. The Business Software Alliance, a non-governmental organization which has been pursuing intellectual property rights compliance in the Arabian Peninsula, is addressing the use of illegal software by both the private sector and the Government. TNCs are linking progress in the anti-piracy campaign to further investment in the country. For example, Microsoft has announced plans to launch joint ventures for software production, to offer software packages to both educational institutions and government departments at discount and to encourage training.

Box IV.7. Oracle: Becoming the market leader in Egypt

Oracle Corporation is the market leader in information management in Egypt. The company believes that the reform programme launched by the Government of Egypt has made information technology a critical factor of success and that the growing local and regional markets offer good business opportunities. The company is developing in Egypt a “subsidiary infrastructure” with the aim of becoming the largest multinational software company in the country. The company’s focus of activities is on: the Government and public sector, defence and security, oil and gas, private and banking and finance. The establishment of the Oracle Egypt subsidiary allows the company to access the company’s world-wide network and resources. There is an on-line network and a special international web site. The training system is under an international supervision in 5 authorized training centres selected among the best in Cairo and Alexandria. Oracle Egypt has studied the Egyptian market and the key players and designed the “Oracle Partners Programme” to create additional distribution channels. Oracle Egypt has leveraged the company’s global strategy, developing an attractive Partnership Programme to ally with the markets’ best breed of firms and create additional geographical spread. This is to cater for coverage not only for Cairo and the largest cities but also for the new industrial and fast growing cities. Oracle certifies partners and assists in their technical and commercial development. It also entered partnership agreements with training centres and major training providers and also agreed to support a Government initiative for the establishment of an information technology training institute.

Source: UNCTAD survey, 1998.

2. Investment opportunities

Egypt’s strengths in attracting FDI in electronics and information technology rely on :

- ◆ Demand: The domestic market is large, with growth in all areas: telecommunication, office equipment and computers, and industrial electronics.
- ◆ Infrastructure: The basic infrastructure is in place, although improvements in airport services, better serving particularly the new free zones, would help in the expansion of export-oriented electronic production. The low cost of utilities and land are an incentive for FDI, particularly for land in the new communities. Utilities are at below world market prices and, similarly, natural gas and gasoline are generally inexpensive.
- ◆ Human resources: Labour costs are competitive but productivity needs to be improved. There exists a good university education system: 13 universities, 125 colleges, and numerous research and training centres. Egypt offers a large pool of experienced technicians, researchers as well as a large supply of semi-skilled work force.
- ◆ Support services: There are about 350 Egyptian registered companies and an estimated equal number of non-registered companies engaged in the high technology computer and electronic industries, which is a large enough nucleus around which support services are beginning to mushroom.

Other regional economies have similar strengths, and Egyptian firms should differentiate their competencies and build niche markets. For example, Turkey has specialized in telecommunication services and most

of its exports are telecommunications equipment and services. In telecom services, Turkey has also been active investor and, or service provider in countries in Eastern Europe and Central Asia. By the same token, Israel has expertise in components, and industrial and medical systems. Table IV.16 presents the main indicators for these economies.

Telecommunication equipment, software development, office and medical equipment are potential areas where Egypt could attract increased FDI, and develop exports. Intra-regional trade and investment should also be encouraged on the strength of Egypt's central position in the Arab world. The UNCTAD survey indicates that local firms see opportunities in forging linkages with foreign firms and in improving organizational management practices and market intelligence. However, local firms are weakly positioned to establish linkages. There are few qualified distributors in Egypt. The quality of domestic suppliers is also poor; they have too small capacity and limited resources to support large TNC operations, and relatively low quality standards and delivery. Thus, there is need to support and encourage the development of linkages between local enterprises and foreign firms.

Strategic alliances with international firms are crucial to develop subcontracting and other linkages, a diversification of investment sources should be promoted. Asian investors is one target group to attract increased export-oriented FDI in Egypt.

In certain areas, a mandating local content was introduced with the aim to support the development of the local components industry. The tariff structure was also designed to discourage imports, but despite these steps, the electronics components industry has not flourished. While the tariff structure has been since revised for electronics and hardware, customs duties in software remain high (30 per cent plus a 10 per cent sales tax). High tariffs encourage locally developed software packages, but raise the price of imported software and thereby encourage piracy.

The UNCTAD survey shows that firms operating in the electronics and information technology sector have difficulties regarding tax regimes and the availability of business information and support services.

3. Policy implications

FDI in electronics and information technology is attracted by local market mainly, but the regional market is a potential pull factor. Market-oriented investment is welcome as it can develop the industry, improve productivity and create linkages with local subcontractors and dealers. FDI strategy also needs to encourage an upgrading of operations, from the simple assembly of imported parts and components to the production of components and exporting.

The experience of developing countries successful in creating a favourable environment for the development of electronics and information technology point to the importance of liberalized trade policies, sustained investment in manufacturing and human resource development and to the catalytic role played by export processing zones and technology parks.

A review of the tariff structure would encourage firms in protected segments of the industry to rationalise and upgrade their operations. Firms in related segments would also gain, as would firms in the manufacturing sector given the importance of information technology in improving total factor productivity throughout the economy. For these reasons, a number of countries no longer protect the information technology industry. In India, hardware imports are facilitated for the purpose of software development for export, and telecom imports are allowed duty free for hardware, and at reduced duty for software. Turkey

encourages more widespread use of computer systems by levying very low import charges on computer equipment and software.

Incentives offered to investment in Egypt's free zones and new communities need to be accompanied by the parallel development of technology parks and other support services. In 1989, the technology valley programme was designed to support the industry's development. Although programmed in the 1996 national budget, the valleys have yet to become operational in all locations. In addition, the different valleys may compete for the same kind of investment unless a clear differentiation of activities would be clearly encouraged (see table IV.17).

Also important is increased support for R&D, in the public and private sectors, and strengthened links between R&D institutions and industry. In Israel, investment in R&D is expected to reach 3 per cent of GDP, in both the public and private sectors. In Turkey, public programmes to raise R&D investment to 1 per cent of GDP are being accompanied by a planned increase of private sector spending in total R&D expenditures from 8 per cent to 30 per cent by 2003.

Typically, TNCs in the electronics industry start their affiliates in assembly operations of imported parts and components to serve local markets. Once the basic absorptive capacity is established, as in the case of the Republic of Korea and Singapore, upgrading of operations takes place through licensing and other forms of collaborations between TNCs and local firms with the aim to establish production of components and exporting. This process could be encouraged in Egypt. Local companies should actively pursue partnerships and linkages with global companies to implement the industrial and services transplantation of selected trailing edge products to serve the regional and global market.

A number of the firms interviewed point to the lack of a national support institutions dealing with business information support in information technology. The Information and Decision Support Centre (IDSC), was established in 1985 to support the public sector but it has taken on additional roles over time, including training and marketing.

It has ample financial resources, equipment and training facilities, and it should be encouraged to play a more prominent role as service provider for technology support to business.

In telecommunications, a few market segments, such as mobile communications, can be attractive to local investors. But other segments are dominated by giants: the largest global manufacturers, carriers and services providers have, on average, activity in at least 40 countries and operate integrated networks, including production and advanced services. Thus, internationalization of telecommunication networks is linked to privatization through FDI.

There is a strategic advantage in liberalizing the Egyptian telecommunications market. The demand for improved and expanded services is pressing, and capital requirements for upgrading and expanding infrastructure can be considerable.

TNCs are large, telecom intensive users and demand technologically sophisticated services. Their demand for reliable, high-speed digital services and other innovations may outpace a national domestic carrier's ability to supply them. At same time, FDI in telecommunications can sustain the development of some segments of electronics production (components and office equipment) and software development where local and foreign firms with a regional base may gain their advantage in exporting by having greater access to market information and being able to offer better consumer services.

Table IV.16. Main indicators in electronics and information technology in the MENA region, 1996
(Millions of US dollars and percentage)

Indicator	Egypt	Turkey	Israel
Electronics production	222	1 840	4 728
Electronics market	675	3 330	4 928
FDI support programmes	- Technology Development Programme -Technology Valleys - 6 new communities industrial zones - expertise in arabisation, starting regional exports and investment in software development - 5 free zones in operation	-20 industrial zones -low import tariffs -good infrastructure in telecom - developed competencies in telecom switches, serving Eastern Europe and Central Asia	-developed infrastructure - strategic research programmes -outward investment developed
Telecom Investment:	2.8	3.1	2.7
- as percentage of GDFC per inhabitant	5.1	6.8	97.1
PC per 100 people	0.58	0.67	17.04
Investment in R&D as % of GDP	0.34	0.3	3%
Electronics exports	100.2	747	3 750
IT exports	145	620	1 824
of which, software	10	18	n.a.
Regional strategy of selected TNC	-Xerox located in Egypt the only manufacturing and assembly plant in the Middle East	-Microsoft installed in Turkey an affiliate responsible for sales and support of Middle East, Central Asia and North Africa	-Intel has established in Israel its only affiliate in the Middle East. In addition, its regional sales office is based in Tel Aviv.

Source: UNCTAD based on Elsevier, 1996 and IDSC, 1998.

Table IV.17. Policies that affected the Egyptian information technology industry, 1998

Year	Policy/Institutional development	Objectives
1985	Establishment of the Information & Decision Support Centre	-develop information and decision support for the Cabinet and policy makers - develop an infrastructure for information and decision support systems in ministries and governorates - develop a software service industry -develop a high-tech industrial base
1985	Establishment of the Information Technology Institute (by IDSC)	- training of IDSC personnel - training of government and governorates officials - training of software industry personnel - training of university graduates - new post-graduate training of distinguished graduates
1993	Establishment of the Technology Development Programme (by IDSC)	- establishment of a strategy for the development of high technology in Egypt - co-ordination between all entities related the development of high tech in Egypt -Encouragement of private sector investment in high technology
1995	Business and Technology Development Centre (established by IDSC)	-offer business information resources access to advanced technology solution to business development
1996	Establishment of Technology Valleys Programme In the first phase, the Sinai Technology Valley was established in Ismailia. Other valleys are in the planning phase, they will include: - 6th of October - Sohag - Nag Hamadi	- international marketing based on real approach of investors need. An incentive package offered to create a business attraction and promote transfer of technology
1998	Trade policies— tariff structure	
NGOs and regional organizations		
	◆The Egyptian Business Software Association	-Effective application of copyright laws -Encouraging acquiring original software
	◆Better Software Alliance	-Effective application of copyright laws -Encouraging acquisition of original software
	◆Association of Owners of Computer Companies	-Effective application of copyright laws -Encouraging acquisition of original software
	◆Egyptian High Technology Association	- Encouraging research and application of high-tech
1985	The Regional Information Technology and Software Engineering Centre (RITSEC)	A joint project of UNDP and the Arab Fund for Economic and Social Development (AFESD). It assists in the development and growth of the information technology and software industry. It is hosted in Egypt. It can bid for government projects and actually competes with local software developers.

Source: UNCTAD survey, 1998.

V. Conclusions and recommendations

The Government of Egypt has taken giant strides in this decade towards reviving the economy and business environment. This, plus improvements in the investment framework, make Egypt an attractive investment location in West Asia and North Africa, and FDI inflows are increasing. But the potential exists for even greater FDI inflows as well as for greater variety, going beyond resource and market-seeking investments and including export-oriented operations and integrated international production.

Realizing Egypt's full FDI potential will require efforts on several fronts. The Government recognises the need to remove obstacles to trade, promote exports and develop new export markets. This process of trade liberalization needs to be deepened and accelerated. The necessary actions include improved trade efficiency and transportation, simplified customs procedures and improved national quality control systems and standards.

The Government attaches importance to privatization. Port services, telecommunications, electricity, banks and insurance companies are all ready to be privatized. Their privatization is expected to improve the performance of enterprises directly and indirectly (if service companies like banks and insurance providers are privatized), and also improve the business climate by sending a signal of confidence to domestic and foreign investors.

The Government is committed to establish a comprehensive and transparent set of business regulations, including the judicial, legislative and regulatory environment for investment. While Egypt scores well on investment protection, improvements in other areas are possible, particularly with respect to investment admission and company establishment. Also desirable are explicit assurances of non-discrimination and transparency in the application of investment policies and regulations.

The Government is expected to provide enhanced support for the market economy. The needs here are many, ranging from improvement of infrastructure and human resource development, to efficient governance and administration. The possible areas of improvement in the legal system involve labour laws, intellectual property rights protection, consumer protection, trade laws and competition policy. While the above list covers a formidable range of actions, these are challenges which the Government has already accepted. A number of measures could facilitate the achievement of specific objectives related to three broad areas: the investment framework, private-sector development and regional cooperation.

A. Investment framework

Objective 1: To facilitate FDI entry and simplify establishment procedures

As seen, at present, Companies Law 159 maintains restrictions on ownership and management of foreign enterprises. In the longer term, foreign companies should be entitled to the same rights and obligations as domestic investors. In the immediate future, the primary concern of business people is the speed, predictability and transparency of the business establishment process and the issuance of permits, licences and other necessary authorization. Speeding up this process is an important element to attract FDI. A number of measures could be adopted:

- ◆ Define a time span for issuing notifications/registration.
- ◆ Establish a window in the Investment Authority to assist the investor to deal with the different regulatory agencies at the central as well as at the provincial and local level.

In order to be competitive with other countries, Egypt needs to greatly simplify and unify company's establishment process and thereby reduce the time and duplication of effort.

Objective 2: To strengthen the General Authority for Investment and the Free Zones as a promotion agency

International investors operate in a globalising economy and adopt new strategies for international production which have also changed requirements for investment promotion activities. Several measures would help GAFI to meet the challenge of attracting increased FDI to Egypt.

GAFI should be a private-sector oriented organization and it should give a significant impetus to private sector led development in Egypt. It is suggested that GAFI's new strategy would focus on:

- ◆ investment facilitation;
- ◆ business support; and
- ◆ after-care services.

These services should be demand-oriented, and partially users-supported.

To fully assume the role of an attraction and facilitating organization, GAFI should redefine the roles and responsibility of existing staff. Subject to strategy requirements, staffing may be gradually reduced, and more importantly the composition of skill of staff should focus on the marketing and promotion sides. Different levels of management would benefit from special management training programmes especially designed to fulfil new missions and objectives.

GAFI should also consider locating investment promotion offices in a selected, small number of key locations abroad. As a first step, GAFI officials could join training programme sponsored by some inward/outward investment agencies of other countries and gain experience in operating marketing programmes abroad. GAFI should also monitor FDI flows and improve its information collection and retrieval. New information material should be produced and existing ones redesigned.

New information technology should be adopted to upgrade information collection and retrieval, providing good tools to monitor new FDI flows and capacity expansion.

While recognising that export promotion is the domain of other ministries and agencies, the linkages between exports and inward FDI is an important one and it should be strengthened.

As the administrative authority in charge of investment, GAFI should take the lead to ensure policy co-ordination and transparency of the investment framework. It should be pro-active in working with other ministries, particularly trade and economy, as well as ensuring that foreign investors are consulted when new policy measures are under consideration.

Objective 3: To focus investment promotion on export-oriented FDI

Investors are attracted to Egypt primarily to serve the local market and to exploit resources. These investments are important and should be welcome. At the same time, promotion efforts should focus on attracting export-oriented investment. Three broad target categories are proposed:

Regional and possibly global export-oriented FDI: Investment is designed to build from Egypt's existing activity in the free zones. Because of future potential, however, greater emphasis should be placed upon labour-intensive, export-oriented operations in electronics rather than only in textiles. It is important that

attracting this type of FDI is not seen as an end in itself, but rather as a way into the TNC-dominated electronics sector. In the medium-term, fuller-line assembly operations of higher capital intensity would be the objective.

Reinvestment: It should centre on project expansion of established TNCs. As shown in the report, there are a large number of investment activities in consumer and related product sectors, largely designed to cater for Egypt's internal market requirements. In the medium term, the objective will be to encourage investors to rationalise their operations and develop an export orientation, backed up by local product development to meet the specific requirements and tastes of local and regional consumers. A number of measures could facilitate project expansions:

- ◆ Provide same incentives to project expansion as for new, greenfield FDI;
- ◆ Reduce protection and increase competition in relatively closed industries;
- ◆ Involve and support TNCs in R&D and local product development (some successful examples have been already highlighted in the report) and potential exists. This could be done through joint R&D project, some specific R&D incentives etc.;
- ◆ Create a regional advisory board with other IPAs in the region to develop complementary production schemes (pharmaceuticals/food/textiles could constitute pilot projects).

Partnership: Egyptian-owned enterprises should be encouraged to enter in subcontracting and joint venture linkages with foreign firms for the purposes of technological upgrading and accessing export markets. These firms, in the long term, may also become regional investors (either on their own or in partnership with TNCs) in other countries of the MENA region. Sectors with identified potential include, among others, metal, ceramics, food processing, garments, tourism and software services.

Objective 4: To upgrade FDI in the free zones

Free zones have benefited from investment facilitation measures, including tax and tariff incentives, and to some extent, of basic infrastructure. A number of new zones are being proposed for establishment, and there could well be just too many of them. The priority should be to upgrade the infrastructure in existing areas.

Some free zones should evolve into technology parks and/or industrial parks. Upgrading of the zones would require not only a more sophisticated infrastructure but the establishment of a “centre of excellence” in business services. Towards that end, selected free zones should be:

- ◆ Privately operated
- ◆ Offer tailor-made logistic centres (packaging, unitizing, loading, unloading, transporting, storing, and keeping track of handling, inventory, warehousing and transit costs);
- ◆ Host specialized investment promotion antennas
- ◆ Be actively marketed (information material, including, directory of foreign firms investing in the free zones, type of investment existing and desired focus) to develop a name recognition e.g. “Made in Damietta”.
- ◆ Constitute a network (e.g. providing dedicated transportation links among zones, communication etc.).

B. Private-sector development

Objective 1. To increase foreign investors' involvement in the privatization process

Privatization through the mechanism of strategic (or anchor) investors has not met expectations. An alternate route is to encourage privatization through the stock market.

Some specific measures could include:

- ◆ Encourage FDI in investment services;
- ◆ Improve information available to potential foreign investors on the privatization programme;
- ◆ Empower the competition agency (to be established) to review mergers.

Objective 2: To create new investment vehicles

As seen in the report, a number of initiatives have already been taken to revive the stock exchanges in Cairo and Alexandria and to strengthen development of capital markets in Egypt. The stock market has an important role to play in the privatization process and in order to encourage foreign investors' participation, the following measures could be adopted to overcome the lack of market breadth, depth and information.

- ◆ Create an independent accounting board to develop and monitor disclosure standards;
- ◆ Offer equal tax treatment to investment vehicles which should be similarly tax-treated as direct portfolio investments for both individual and institutional investors;
- ◆ Allow financial institutions to engage in all financial activities provided that no conflict of interest or anti-trust laws are violated. The competition authority which should be established should be empowered to review such cases.
- ◆ Increase Egyptian corporate finance expertise by designing special training programmes.

New investment vehicles can help attract new entrants into the capital market and broaden the service base of financial institutions, institutional and individual investors. These vehicles could include, for example, mutual funds (multiple and open-ended funds) and venture capital. Banks should be allowed to issue shares in the securities markets and financial intermediaries to use domestic public liabilities (social securities, insurance and pension funds).

Objective 3: To reform tax administrations

Egypt's system of tax administration needs to be reformed to lower the burden on companies operating in Egypt. One of the major reforms that needs to take place is to move away from the present system of comprehensive annual audits. With the present expansion of the private sector, the tax administration system is unable to cope with the volume of audits in a timely manner. A simpler process for appealing tax assessment needs also to be put in place to shorten the lengthy process of solving disputes.

Objective 4: To reduce trade-related transactions costs

To attract export-oriented FDI requires easy access to overseas markets. It is necessary to strengthen the trading infrastructure to facilitate imports and exports and reduce transaction costs. TNCs are engaged in a large volume of intra-company trade, but TNCs in Egypt find customs, ports and quality controls do not meet their global company-wide requirements. Specific improvements could include:

- ◆ Tariff reforms
- ◆ Reform of the process of estimating duties for importers
- ◆ Reduce inspection prior to admittance only to those necessary for health and safety
- ◆ Improve quality testing facilities and locate them close to ports.

Objective 5: Raise quality standards and support innovation

Egypt's national system of innovation is not lacking in institutional development but the sum is less than its parts: the various science and technology institutes and research centres are not responsive to the technological demands of private industry, particularly small- and medium- size enterprises. As part of a systematic effort to make the innovation system more integrated, a number of measures could include:

- ◆ Support the introduction of ISO standards through training and specific incentives
- ◆ Set higher standards of intellectual property rights
- ◆ Open national Science and Technology institutes to international networks.

Objective 6: To develop entrepreneurship

The lack of entrepreneurial dynamism is particularly constraining the development of small and medium-size enterprises (SMEs), which make up the most of Egyptian industries. There is low awareness of the importance of quality to competitiveness with little or no design capability and lax attitudes to delivery. GAFI should support the development of Egyptian SMEs through offering tailor-made specialized consulting services and encouraging business linkages between Egyptian SMEs and foreign enterprises.

C. Regional cooperation

Objective 1 : To support regional integration agreements

The signing of an economic partnership agreement with the European Union is of paramount importance as a first step towards encouraging export-oriented TNC activity. Similarly, measures should be initiated to progress the Arab League's Free Trade Zone plan for the region.

Objective 2: To enhance Egypt's regional leadership role

To successfully attract FDI to Egypt, it is also important to improve the region's attractiveness for FDI. Following the example of other regional groupings, such as MERCOSUR and ASEAN, Egypt should strengthen the co-ordination of intra-regional trade and investment policy and custom harmonisation being one of the priorities. In addition, the following measures could be promoted:

- ◆ Strengthen the regional coordination mechanisms to adopt common trade and investment policies;
- ◆ Identify with neighbouring countries strategic regional projects which would aid the integration of the region as a single market;
- ◆ Participate to regional investment promotion events.

What can we do more? Recommendations of the Cairo workshop

One hundred participants from public and private sector – both domestic and international – gathered in Cairo to discuss the Investment Policy Review of Egypt. Participants recognized that the Government of Egypt has exerted great efforts to set the economic and social stage to encourage the private sector's investment. But these efforts need to be consolidated to ensure more coherence, more transparency and more predictability of the investment framework. As among developed countries changes are constantly sought to further improve the investment environment, so Egypt must continue to boost the attractiveness of the country as an investment location and pursue a continuous process for legal and institutional reforms. Main areas were identified:

- ♦ **Bureacracy**

The bureaucracy is one of the obstacles the government is fighting against. Making GAFI a one-stop shop would create a very efficient response to the requirement of the prospective investors. Efforts should be made to dismantle the bureaucratic procedures but also the bureaucrats' mindset that often takes even longer to change. New systems dealing with private businesses should have technical and procedural efficiencies. The coordination between different government agencies dealing with investment issues needs to be strengthened.

- ♦ **Taxation**

Tax rates in Egypt are considered by investors to be very high, although tax holidays are offered as an incentive to FDI. Nevertheless, the cumbersome procedures for tax administration and the time-consuming, inefficient process of filing tax returns adds a significant element of uncertainty to private investment in Egypt. The business community recommended the establishment of a specialized institution to handle issues related to taxation for transnational corporations. In addition, international investors supported the adoption of a single tax treatment for greenfield (new investment) and brownfield (capacity expansion) investment

- ♦ **The judicial and legal system**

While business needs swift justice, the Egyptian commercial judicial procedures are slow and expensive. Obstacles include inadequate litigation procedures, understaffing, low technical capacity of staff, poor facilities and limited financial resources. Litigation is time-consuming and expensive in Egypt. Egypt legal institutions and the profession must be upgraded and able to deal with the high end– such as privatization, project financing – of the legal work.

- ♦ **Transaction costs**

Exporters and importers still face a lengthy procedure to clear shipments through customs inspections and port services. Cumbersome import procedures continue to delay deliveries from abroad. Exporters have to cope with low-quality, high-cost support services, including air transportation and insurance. The latter two sectors are still restricted partly to private investment. In order to achieve improvements in terms of cost, efficiency and reliability of all transport and related services, the introduction of concession and/or privatisation programmes in different segments of the transport system should be pursued.

- ♦ **Human resources development**

There is a clear shortage of middle-level management, which is the fabric of modern enterprises. Training of the middle management is a challenging task and private-and public- sector joint efforts would be welcome. Certain rigidities of the employment rules should also be eliminated since they cause the elimination of all turnover in a company's staff. As a consequence, opportunities for changes, career improvements and entrepreneurship are reduced.

- ♦ **Banking and finance**

Banking practice are found by international investors to be highly conservative. State banks still dominate the market but generally suffer from low capitalization, a high percentage of poorly performing loans and low efficiency. The quality of banking supervision should also be improved. Financial institutions should support capital market development. The rating of sovereign risks and investment entities, transparency and high quality of disclosure should be sought. Overall, information and surveillance should be improved.

- ♦ **Investment Promotion**

Egypt should define its vision on what it wants to be in the next century to differentiate itself from its competitors. Egyptian business community and the Government should share this vision, and identify investment targets and a clear strategy to attract international investors, including not only large corporations but also SMEs to coach a similar breed of Egyptian firms. At the global level, the Egyptian business community recommended the establishment of a business network, to boost dialogue between business leaders from the North and the South as way to strengthening private-sector participation to development issues.

Promoting Alexandria as investment location in the Mediterranean

The Alexandria Business Association hosted a one-day workshop in the new industrial city of New Borg-El-Arab, some 60 km southwest of Alexandria. Participants spoke openly about the challenges facing the city as well as future opportunities. With around 5 million people, Alexandria has a large market, which should attract investment. Within Mubarak Scientific City, numerous institutions of higher learning and technical colleges for vocational training, offer promising technological infrastructure and a skilled labour force.

There are problems specific to Alexandria and others which Alexandria has in common with the rest of the country. Specific problems relate mainly to the city infrastructure, among them, the efficiency of the sea cargo services, the access to the River Nile, the underutilization of the new airport.

Delegates at the meeting urged the Government to encourage the setting up of private airlines, and called for the upgrading of the civilian airport facilities in New Borg-El-Arab. It was also suggested the separation of the airport's civil service from its military section, so as to allow cargo and passengers planes to leave directly from Alexandria without stopovers in Cairo. Upgrading of infrastructure and social services in the new industrial zones was also considered a priority. Industrial waste and environmental management are also a concern to ensure the city's long term, sustainable development.

FDI was identified as of key importance to Alexandria's development projects. The city needs to target upgrading of existing FDI and initiate new projects. In particular, ties between Alexandria and other Mediterranean commercial hubs should be cemented to attract investment geared to better integrating Alexandria into the Mediterranean economy.

When the Mediterranean was the *Mare Nostrum*, its business communities were linked together and were amongst the richest economies on the planet. Over the centuries, the Mediterranean has disintegrated rather than integrated and today its business communities do not communicate, and often do not even know of each other or of business opportunities.

This shortfall greatly influenced the development of the Mediterranean economies and is the first factor to be addressed in order to stimulate the Mediterranean renaissance. Alexandria has served as a gateway to the Mediterranean for over two millennia, and should once again serve as a beacon and shed light on the ample investment opportunities in the region arising from city-centred investment poles.

Towards that end, the Alexandria Business Association agreed to:

The establishment of a virtual "Mediterranean Business Forum" linking selected business communities within the Mediterranean area. The forum should become a catalyst to improve communication, both internally along an ideal Pentagon of Mediterranean Cities and externally to the outside world, to promote the whole region as an ideal location for foreign investment, thus accelerating its economic development.

The city of Alexandria is also keen to support the development of local SMEs in the strategy of cluster formation. In order to attract investment in the city, a local development agency should be established to coordinate the territory, focus on local strengths and aggressively promote its uniqueness to attract foreign investors.

The main task of the agency should be to:

- Actively promote its territory and its opportunities, following the existing economic policies and priorities and feeding back on their fine-tuning;
- Support the implementation of investment projects, by intermediating between foreign investors and local authorities; and
- Facilitate the development of local entrepreneurship, supporting local demand for start-ups and/or joint ventures.

Source: UNCTAD and Mitchell Madison Group

ANNEX

1. STATISTICS ON INVESTMENT PROJECTS IN EGYPT

Table 1. Profile of total projects approved (Inland, Law 43/230)
(Number and millions of Egyptian pounds)

Projects	Number of projects			Investment cost, LE million			Estimated employment
	1978	1988	1997	1978	1988	1997	1997
<i>Manufacturing</i>	<u>243</u>	<u>574</u>	<u>3 408</u>	<u>1 047</u>	<u>7 234</u>	<u>45 928</u>	<u>388 743</u>
Textiles	33	82	391	295	976	4 454	95 769
Food	32	93	639	67	678	5 658	67 338
Chemicals	70	129	824	113	1 610	12 754	70 256
Wood	11	13	198	16	56	649	12 284
Engineering	40	64	525	282	1 120	6 647	58 344
Building Materials	27	104	365	222	15 35	8 603	37 616
Metals	21	49	332	36	825	4 587	29 631
Pharmaceuticals	9	33	127	16	333	2 344	16 789
Mining	-	7	7	-	101	232	716
<i>Agriculture</i>	<u>33</u>	<u>106</u>	<u>255</u>	<u>251</u>	<u>764</u>	<u>3 557</u>	<u>33 049</u>
<i>Tourism</i>	<u>86</u>	<u>112</u>	<u>515</u>	<u>570</u>	<u>1 867</u>	<u>27 148</u>	<u>109 240</u>
<i>Construction</i>	<u>92</u>	<u>202</u>	<u>178</u>	<u>513</u>	<u>1 216</u>	<u>2 172</u>	<u>33 476</u>
<i>Services</i>	<u>51</u>	<u>121</u>	<u>240</u>	<u>261</u>	<u>875</u>	<u>8 330</u>	<u>27 071</u>
Transport	10	10	28	61	76	550	1 831
Health	13	36	84	52	252	1 356	9 676
Consultancy	-	29	30	-	20	50	816
Petroleum	9	4	13	9	176	2 700	4 050
Others	9	42	85	139	351	3 674	10 698
<i>Non Financial</i>	<u>505</u>	<u>1 115</u>	<u>4 596</u>	<u>2 642</u>	<u>11 956</u>	<u>87 135</u>	<u>591 579</u>
<i>Finance</i>	<u>86</u>	<u>265</u>	<u>517</u>	<u>325</u>	<u>2 346</u>	<u>13 746</u>	<i>n.a.</i>
Banks	37	72	52	130	690	3 052	n.a.
Investment Cos.	49	193	465	195	1 656	10 694	n.a.
<u>Grand total</u>	<u>591</u>	<u>1 380</u>	<u>5 113</u>	<u>2 967</u>	<u>14 302</u>	<u>100 881</u>	<u>591 579</u>

Source: Based on GAFI tabulations for end 1978, mid 1988 and mid 1997.

Table 2. Profile of total inland projects in operation
(Number and millions of Egyptian pounds)

	Number of projects			Investment cost LE million			Estimated employment		
	1978	1988	1997	1978	1988	1997	1978	1988	1997
<u>Manufacturing</u>	<u>88</u>	<u>340</u>	<u>635</u>	<u>64</u>	<u>3 359</u>	<u>15 100</u>	<u>6 937</u>	<u>93 912</u>	<u>159 294</u>
Textiles	-	55	98	-	867	3032	982	51 256	65 922
Food	-	55	102	-	328	2 095	1439	9 002	20 013
Chemicals	-	83	152	-	421	2 498	2488	10 351	23 521
Wood	-	12	17	-	54	186	134	2 243	3 404
Engineering	-	32	90	-	234	2 165	818	4 056	15 812
Building Materials	-	47	72	-	566	1 525	85	6 389	10 187
Metals	-	42	54	-	762	2 045	961	8 603	11 137
Pharmaceuticals	-	14	45	-	127	1 338	30	2 010	8 725
Mining	-	3	5	-	16	216	-	368	573
<u>Agriculture</u>	<u>7</u>	<u>45</u>	<u>79</u>	<u>37</u>	<u>358</u>	<u>1 723</u>	<u>541</u>	<u>6 529</u>	<u>10 721</u>
<u>Tourism</u>	<u>22</u>	<u>66</u>	<u>131</u>	<u>84</u>	<u>880</u>	<u>4 939</u>	<u>2 505</u>	<u>6192</u>	<u>15 390</u>
<u>Construction</u>	<u>4</u>	<u>104</u>	<u>149</u>	<u>124</u>	<u>477</u>	<u>1 665</u>	<u>2 137</u>	<u>29 848</u>	<u>2 595</u>
<u>Services</u>	<u>8</u>	<u>85</u>	<u>123</u>	<u>14</u>	<u>331</u>	<u>2762</u>	<u>872</u>	<u>10 587</u>	<u>15 132</u>
Transport	3	8	10	8	65	189	453	1 035	892
Health	-	19	42	-	23	572	-	2 041	4 142
Consultancy	-	24	27	-	18	47	-	417	446
Petroleum	5	4	4	6	117	1 527	-	349	2 452
Others	-	30	40	-	108	427	419	6 745	7 200
<u>Non Financial</u>	<u>129</u>	<u>640</u>	<u>1 117</u>	<u>323</u>	<u>5 405</u>	<u>26 189</u>	<u>12 992</u>	<u>147 068</u>	<u>233 132</u>
<u>Finance</u>	<u>41</u>	<u>210</u>	<u>277</u>	<u>144</u>	<u>1 823</u>	<u>9 055</u>	-	n.a.	n.a.
Banks	29	67	52	91	678	3 052	-	n.a.	n.a.
Investment Cost	12	143	225	53	1 1145	6 003	-	n.a.	n.a.
<u>Grand Total</u>	<u>170</u>	<u>850</u>	<u>1394</u>	<u>467</u>	<u>7 228</u>	<u>35 244</u>	<u>12 992</u>	<u>14 7068</u>	<u>233 132</u>

Source: Based on GAFI tabulations for end 1978, mid 1988 and mid 1997.

Table 3. Profile of total projects inland under execution
(Number and millions of Egyptian pounds)

	Number of projects			Investment cost, LE million			Estimated employment		
	1978	1988	1997	1978	1988	1997	1978	1988	1997
<u>Manufacturing</u>	<u>100</u>	<u>93</u>	<u>2 773</u>	<u>614</u>	<u>907</u>	<u>30 828</u>	<u>31 046</u>	<u>12 244</u>	<u>229 449</u>
Textiles	-	3	293	-	234	1 422	15 924	8 849	29 847
Food	-	19	537	-	116	3 563	1 560	1 337	47 325
Chemicals	-	23	672	-	124	10 256	3 369	1 712	46
Wood	-	12	181	-	539	463	455	-	8 880
Engineering	-	10	435	-	65	4 482	1 576	1 650	42 532
Building Materials	-	14	293	-	134	7 078	6 966	1 989	27 429
Metals	-	1	278	-	1	2 542	916	35	18 494
Pharmaceuticals	-	11	82	-	144	1 006	280	2 672	8 064
Mining	-	2	2	-	81	16	-	-	143
<u>Agriculture</u>	<u>17</u>	<u>18</u>	<u>176</u>	<u>165</u>	<u>177</u>	<u>1 834</u>	<u>2 960</u>	<u>3 668</u>	<u>22 328</u>
<u>Tourism</u>	<u>48</u>	<u>25</u>	<u>384</u>	<u>327</u>	<u>449</u>	<u>22 209</u>	<u>14 947</u>	<u>9 016</u>	<u>93 850</u>
<u>Construction</u>	<u>22</u>	<u>35</u>	<u>29</u>	<u>83</u>	<u>237</u>	<u>507</u>	<u>8 028</u>	<u>7 585</u>	<u>881</u>
<u>Services</u>	<u>39</u>	<u>14</u>	<u>117</u>	<u>86</u>	<u>109</u>	<u>5 568</u>	<u>3090</u>	<u>5 911</u>	<u>11 939</u>
Transport	-	-	18	-	-	361	355	-	939
Health	-	8	42	-	85	784	2 057	3702	5 534
Consultancy	-	3	3	-	1	3	-	750	370
Petroleum 1 598	-	-	-	9	-	-	1173	-	-
Others	-	3	45	-	13	3247	678	1459	3 498
<u>Non Financial</u>	<u>32</u>	<u>187</u>	<u>-</u>	<u>1 303</u>	<u>1 783</u>	<u>-</u>	<u>60 071</u>	<u>28 072</u>	<u>358 447</u>
<u>Finance</u>	<u>27</u>	<u>13</u>	<u>240</u>	<u>131</u>	<u>156</u>	<u>4 691</u>	<u>n.a</u>	<u>n.a.</u>	<u>n.a.</u>
Banks	5	2	-	32	7	-	n.a.	n.a.	n.a.
Investment Cos.	22	11	240	98	149	4 691	n.a.	n.a.	n.a.
<u>Grand total</u>	<u>259</u>	<u>200</u>	<u>3 719</u>	<u>1 434</u>	<u>1 939</u>	<u>65 637</u>	<u>60 071</u>	<u>28 072</u>	<u>358 447</u>

Source: Based on GAFI tabulations for end 1978, mid 1988 and mid 1997.

Table 4. Arab investors in inland and free zone projects (approvals as of mid 1997)
(Number and millions of Egyptian pounds)

Project s	Number of projects	Investment	Arab share cost LE. million	The three top countries (by rank) in equity , %
<i>Manufacturing</i>	<i>687</i>	<i>15644</i>	<i>35</i>	Saudi Arabia (155) Jordan (85) Syria (71)
Textiles	90	535	63	Syria (28) Lebanon (15) Palestine (11)
Food	102	2362	33	Saudi Arabia (37) Kuwait (9) Sudan (9)
Chemicals	214	2927	47	Jordan (38) Saudi Arabia (37) Palestine (26)
Wood	15	132	52	Saudi Arabia (6) Lebanon (3) Palestine (3)
Engineering	112	2025	36	Saudi Arabia (28) Kuwait (17) Jordan (14)
Building Materials	73	4869	29	Saudi Arabia (19) Jordan (11) Libya (9)
Metals	48	1770	24	Saudi Arabia (13) Jordan (7) Lebanon (7)
Pharmaceuticals	31	1008	15	Saudi Arabia (8) Syria (5) United Emirates (4)
Mining	2	16	40	Jordan (1) Oman (1)
<i>Agriculture</i>	<i>84</i>	<i>1026</i>	<i>38</i>	Saudi Arabia (33) Palestine (10) Jordan (8)
<i>Tourism</i>	<i>126</i>	<i>7417</i>	<i>46</i>	Saudi Arabia (50) Kuwait (27) Lebanon (12)
<i>Construction</i>	<i>55</i>	<i>497</i>	<i>62</i>	Saudi Arabia (14) Kuwait (12) Lebanon (5)
<i>Services</i>	<i>60</i>	<i>1326.2</i>	<i>17</i>	Saudi Arabia (20) Kuwait (9) Libya (8)
<i>Finance</i>	<i>256</i>	<i>7007.8</i>	<i>32</i>	Saudi Arabia (84) Kuwait (43) United Emirates (22)
Banks	21	1391	7	Saudi Arabia (3) Kuwait (3) United Emirates (3)
Investment Cos.	235	5616.8	38	Saudi Arabia (81) Kuwait (40) United Emirates (16)
free zones	164	11278	19	Saudi Arabia (27) Syria (21) Lebanon (20)
<i>Total including free zones</i>	<i>432</i>	<i>44196</i>	<i>31</i>	

Source: Based on individual country tables and aggregates prepared by GAFI. Status as of end June 1997

Table 5. Foreign investors in inland projects (approvals as of mid 1997)*
(Number and millions of Egyptian pounds)

Sector	Number of projects	Investment cost LE million	Foreign share %	Three top countries by rank
<u>Manufacturing</u>	583	29 205	30	USA (107) Germany (66) United Kingdom(62)
Textiles	68	1 890	50	USA (23) United Kingdom (7) France (4)
Food	85	36 21	40	United Kingdom(17) United States (15) Germany (7)
Chemicals	143	6391	40	United States (21) Switzerland (8) India (14)
Wood	14	187	20	France (2) Germany (2) Luxembourg (2)
Engineering	137	4310	30	Italy (12) United States (22) Germany (13)
Building Materials	49	6972	20	Germany (8) United States (6) Switzerland (6)
Metals	45	4 054	10	Japan (3) Italy (4) Korea (1)
Pharmaceuticals	42	1780	40	United States (12) Germany (7) France (5)
<u>Agriculture</u>	43	1317	20	United States (8) France (3) Germany (5)
<u>Tourism</u>	109	7103	30	United Kingdom (20) United States(11) Switzerland (16)
<u>Construction</u>	40	154	20	United Kingdom(9) Germany (8) United States (4)
<u>Services</u>	86	1729	30	United States (23) United Kingdom (12) Switzerland (9)
<u>Finance</u>	142	6819	20	United States (18) United Kingdom(18) France (15)
Banks	34	2 680	20	United States (5) France (5) United Kingdom (4)
Investment Cos.	108	4139	20	United Kingdom (14) United States (13) France (10)
Grand total	1 003	46 327	30	

Source: Based on individual country tables and aggregates prepared by GAFI.

* Excluding Arab investors.

Table 6. Revealed comparative advantage and share of total exports, 1996

ALGERIA				EGYPT				TUNISIA			
DESCRIPTION	RCA	% of exports	DESCRIPTION	RCA	% of exports	DESCRIPTION	RCA	% of exports	DESCRIPTION	RCA	% of exports
341 GAS NATURAL AND MANUFCTD	52.03	32.26	RICE	43.25	3.33	842	36.50	20.43	MENS OUTERWEAR NOT KNIT	36.50	20.43
333 CRUDE PETROLEUM	24.37	48.01	COTTON	20.37	2.62	562	20.45	5.93	FERTILIZERS, MANUFACTURES	20.45	5.93
551 ESSENTL OIL, PERFUME, ETC	13.00	1.69	PETROLEUM PRODUCTS, REFIN	13.48	22.92	843	14.93	11.05	WOMENS OUTERWEAR NONKNIT	14.93	11.05
334 PETROLEUM PRODUCTS, REFIN	6.86	11.67	CRUDE PETROLEUM	11.73	23.10	522	13.60	4.08	INORG ELEMENTS, OXIDES, ETC	13.60	4.08
335 RESIDUAL PETRLM PROD NES	6.62	0.86	TEXTILE ARTICLES NES	9.91	2.54	844	12.27	2.70	UNDER GARMENTS NOT KNIT	12.27	2.70
686 ZINC	3.00	0.24	TEXTILE YARN	8.86	5.78	423	11.20	2.24	FIXED VEG OILS, SOFT	11.20	2.24
671 PIG IRON ETC	2.79	0.39	VEG ETC FRSH, SMPLY PRSVD	7.35	3.42	846	10.07	4.63	UNDER GARMENTS KNITTED	10.07	4.63
522 INORG ELEMENTS, OXIDES, ETC	1.23	0.37	ALUMINIUM	7.03	5.24	845	5.85	3.86	OUTERWEAR KNIT NONELASTIC	5.85	3.86
057 FRUIT, NUTS, FRESH, DRIED	1.13	0.60	COTTON FABRICS, WOVEN	6.24	2.51	773	5.22	3.29	ELECTR DISTRIBUTING EQUIP	5.22	3.29
893 ARTICLES OF PLASTIC NES	0.78	0.83	UNDER GARMENTS KNITTED	4.51	2.09	333	4.25	8.37	CRUDE PETROLEUM	4.25	8.37

ISRAEL				MOROCCO			
DESCRIPTION	RCA	% of exports	DESCRIPTION	RCA	% of exports	DESCRIPTION	RCA
667 PEARL, PREC-, SEMI-P STONE	50.23	30.64	271 FERTILIZERS, CRUDE	366.5	7.33		
897 GOLD, SILVERWARE, JEWELRY	6.21	2.36	036 SHELL FISH FRESH, FROZEN	42.91	9.87		
726 PRINTG, BK BINDG MACHY, PTS	5.50	1.65	522 INORG ELEMENTS, OXIDES, ETC	35.87	11.12		
562 FERTILIZERS, MANUFACTURES	5.44	1.58	037 FISH ETC PREPD, PRSVD NES	24.73	3.71		
764 TELECOM EQPT, PTS, ACC NES	3.19	8.06	562 FERTILIZERS, MANUFACTURES	24.33	8.03		
893 ARTICLES OF PLASTIC NES	2.39	2.56	056 VEGTBLES ETC PRSVD, PREPD	22.92	2.75		
792 AIRCRAFT ETC	1.25	2.06	057 FRUIT, NUTS, FRESH, DRIED	13.25	7.02		
541 MEDICINAL, PHARM PRODUCTS	1.00	1.63	842 MENS OUTERWEAR NOT KNIT	9.68	5.42		
752 AUTOMTIC DATA PROC EQUIP	0.96	2.94	845 OUTERWEAR KNIT NONELASTC	8.49	5.60		
776 TRANSISTORS, VALVES, ETC	0.53	2.00	054 VEG ETC FRSH, SMPLY PRSVD	7.51	3.53		

Source: UNCTAD, CONTRADE database, 1998

2. SURVEY METHODOLOGY

In 1998, UNCTAD conducted a survey of potential foreign investors among TNCs from the following countries, France, Italy, Germany, Japan, the Republic of Korea, United Kingdom and United States. About 100 responses were gathered to identify investors' interest and their assessment of the country's strengths and weaknesses. The method used was a postal questionnaire, with close monitoring and follow-up interviews. A number of organizations have supported the survey namely, Invest in France Mission, the Italian Trade Centre, JETRO (Japan), Kidson Research (United Kingdom) and the Washington Business Council (United States).

Table 2.2. draws on the results of the evaluation by international investors of negative and positive factors to investment in Egypt. The frequency distribution of the weighted average of responses has been calculated and factors above the median value are considered strengths and those below as weaknesses to investing in Egypt.

In the fall of 1997, ERF and UNCTAD conducted a survey among foreign investors in Egypt to identify the key investment incentives and obstacles perceived by the affiliates of TNC operating in Egypt. 88 TNCs operating across six industry sectors (Manufacturing, Agriculture, Financial Services, Tourism and Information Technology) responded to the questionnaires. The method used was a postal questionnaire, with close monitoring and follow-up, including direct interviews. The survey also covered a mix of nationalities including France, Germany, Italy, Kuwait, Netherlands, United Kingdom, United States.

Assessment of the both surveys' results was based on average grade of all responses received to each question, ranging from 1 to 5. A mean value was then calculated and can be compared to a mid-range value of 3. The degree of variation in responses was fairly limited, based on a one tail t-test with a null hypothesis representing the mean score of 3.0. This indicated the reliability of responses to the questionnaires.

Annex to table 2.2. Frequency distribution and evaluation of positive factors to invest in Egypt by economic determinants

No.	Positive factors	Weight average	Economic determinants	Evaluation
5	Access to techn. & skilled labour	9.47	Cost	low
9	High quality/low cost land	11.00	Cost	low
8	Access to raw materials	11.07	Natural resources	low
17	Positive previous export experience	11.07	Market	low
12	Fav. Educational sys. & training	11.60	Policy framework	low
6	Good network of suppliers	11.93	Business support	low
10	Tax incentives	11.93	Policy framework	low
11	Government incentives	12.33	Policy framework	low
7	Good physical infrastructure	12.53	Infrastructure framework	median value
16	Preferential access to third market	12.67	Policy framework	high
15	Strategic business location	13.40	Market	high
4	Low cost labour	13.47	Cost	high
14	Tariff structure	13.60	Policy framework	high
13	Generally friendly regulatory env.	14.07	Policy framework	high
2	Proximity other nearby markets	14.67	Market	high
1	Market size/growth potential	17.67	Market	high
3	Potential return on investment	18.27	Market	high

Source: UNCTAD survey of international investors, 1998.

Annex to table 2.2. Frequency distribution and evaluation of negative factors to business operations in Egypt by economic determinants

No.	Negative factors	Weight average	Economic determinants	Evaluation
19	Lack of training programmes	2.13	Infrastructure framework	low
18	Language/cultural differences	2.53	Infrastructure framework	low
20	Lack of distribution channels	2.87	Infrastructure framework	low
3	Labour cost/legal system	7.13	Cost	low
11	Access to land/titling procedures	8.20	Policy framework	low
4	Local inflation	8.73	Cost	low
5	Tax regime	9.40	Policy framework	low
7	Labour laws	9.47	Policy framework	low
6	Speed/scope of privatization	9.80	Policy framework	low
15	Lack of telecommunications	9.87	Infrastructure framework	median value
17	Lack of capable/trustworthy partner	10.53	Business support	
8	Tariff barriers	10.60	Policy framework	high
16	Lack of qualified personnel	10.73	Infrastructure framework	high
13	Dispute settlement/judicial system	10.87	Policy framework	high
14	Lack of business services	10.87	Infrastructure framework	high
12	Investment/business establ. proc.	10.93	Policy framework	high
10	Corruption	12.07	Policy framework	high
1	Political instability	13.27	Policy framework	high
2	Financial risk	13.87	Market	high
9	Bureaucracy	14.80	Policy framework	high

Source: UNCTAD survey of international investors, 1998.

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