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**EGYPT : An Appropriate Eu Partner
And Potential Link To Arab Markets**

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Presented by :
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**EGYPT : AN APPROPRIATE EU PARTNER
AND POTENTIAL LINK TO ARAB MARKETS**

By

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Excellencies, Distinguished Guests, Ladies and Gentlemen ,
It is both to my privilege and honour to be invited to address this esteemed Conference on :

**EGYPT : AN APPROPRIATE EU PARTNER
AND POTENTIAL LINK TO ARAB MARKETS**

I would like to extend my thanks to the organisers of the Conference and to Federation of German Industries in particular .

Many people just vaguely know Egypt as the sleeping beauty dorming at the northern coast of Africa on a 5000-year old civilisation and a one third of the world's discovered monuments.

This perception, although largely true, yet does not reflect the full truth about modern Egypt.

Egypt is a very special case:

- It is situated in Africa and is quite a promising example of the Continent's future.
- What is known as the ancient 5000-year old civilisation, is actually nothing but the discovered age of Pharaonic writing. But the true age of the Egyptian civilisation on the banks of the River Nile , is more than 15 thousand years.
- The undiscovered and exploited monuments under the Egyptian ground is believed to be three times what have been discovered up to the day.
- Its spoken language is Arabic, nevertheless for many centuries, Egyptian intellectuals and writers have been enhancing written Arabic in general, and Arabic literature in particular, to the benefit of the entire Arabic speaking Communities.

- It has a unique location , being situated in both Africa and Asia.

One needs just to cross the Suez Canal, a walking distance of 100m. to move from one continent to another.

- The Suez Canal is another wonder taking into consideration that it was built before electricity and internal combustion engines were discovered, using merely human power with nothing more than a shovel in one hand and a frail in the other. Quite an achievement as digging in sand in absence of modern equipment is no better than digging in water. The Suez Canal is actually another Pyramid built by the recent Egyptian for the benefit of the entire humanity.

For many of us it is not the first time to get to know that in the fifties, Egypt had the 5th largest capital market in addition to significant financial reserves and assets held by the Bank of England. Egypt, as in the words of the famous economist of the 60's, Bent Hanson had been on the verge of economic take off ... well before the Asian Tigers ever contemplated economic reform and restructuring.

By the early eighties, macroeconomic indicators in Egypt showed an economy of complex and complicated problems, which led an economic writer to comment in an article that it was hard to disentangle the problems to correct the distortions. He also wrote that to truly deal with Egypt's economic problems was a politically explosive issue—due to the wide applications of subsidies, price controls and public ownership.

In the face of a rapidly changing world, two schools of thought in Egypt could be seen. In both schools were a large cross section of society: policy-makers, government officials, economists, businessmen, writers, intellectuals, NGO's and others. On the one hand, there was a call for the maintenance of an inward-looking, protectionist and socialist inclined policy. On the other hand, there existed a liberal, market-oriented, economic reform minded policy.

A major political decision was needed. President Mubarak took a courageous and historical decision for a comprehensive economic reform and restructuring program that went beyond the prevailing crisis, a program that would prepare Egypt for where we are today and more importantly, for the 21st Century.

What Egypt achieved between 1990-1996 deserves a careful study specially that macro-economic indicators were not only corrected, but have been made sustainable:

- Inflation was brought down to 2.8% from over 30%
- The General Budget Deficit continued to go down to 1.3% until 1996.
- The growth rate of the GDP increased in 2000 to 5%.
- The Capital Market was re-established, and the value of the shares traded grew 11 times in 4 years.
- Fundamental structural reforms lead to a push in privatization within the agricultural sector and partially releases of fixed prices.
- In comparison to 94/95 the industry had a part in the growth of the GDP with 19.1 % and employed 49% of the working population. In the year 2000 the production increased by 2.1 %.
- The population growth decreased in 2001 to an estimated 1.69% p.a.
- Official reports showed, that as a result of the government's general policy to reduce customs and tariffs within the concept of foreign trade liberalisation, the contribution of direct and indirect taxes to the national income already decreased from 27.3% in 94/05 to 23.95 in 95/96.
- Interest Rates of an average of 10.5% on the local currency and 5% on the US\$, are still considered high and liable to go down

to cope with the ambitious economic development plan, 75% of which is assigned to the private sector as well as local and international investors in the production and services activities. In this respect, the government is granting more incentives to investors, especially in the new industrial towns and is allowing the private sector to participate in infra-structure projects, insurance and financing institutes.

- The Exchange Rate has been maintained stable since 1998 till 2000 at the rate of 3.396 - 3.405 Egyptian pounds for 1 US\$, at the time all forms of exchange control were removed. (reached 4.63)
- The Country's reserves of foreign currency had already reached 20 billion US dollars. (But have declined again to 14.2 billion US dollar until 2001.)
- Industry, contributed to the increase in the GDP by 20.2% and in the increase of the employment rate by 17%.
- The Services and Tourism sector is still the main contributor to the national income summing up to 51%. The tourism sector alone reached in the meantime again a record high of 5.2 billion US \$.
- Employment, Egypt is considered to be one of the cheapest markets of labour force. It comes second after China in the percentage of qualified youth in the age category of 20 - 24 years.
(Employment in total 19.9 million persons were employed in 2000, of which 29% worked in the agricultural sector, 49% in the service sector and 22 % in the Industry.)
The unemployment problem, with officially 8.3% in 1999 (independent sources estimate state a rate as high as 11.5 to 20%), is a challenge that must be faced through motivating national and international investments in a labour market that has to cope with the requirement of creating 500 thousand new labour incomer per year.

I can recite more indicators of the Government's success in putting its house in order and laying the tracks for the engine of growth to kick-in.

What I believe is critical from a businessman's view, one who has been doing business in Egypt most of his life, is that Egypt is no ordinary emerging market. Five factors contribute to this view:

1. Egypt's economic reform program was not the result of political change as in countries such as Russia or those in East/Central Europe, but initiated by political conviction and continuity. This has been a difficult and courageous process of gradualism and with minimal social cost, which is no easy task.
2. Egypt's economic reform program came not from following a Southeast Asian model of strict economic/political centralisation of decision-making, but happened as political and economic liberalisation of a continued pace.
3. The program was an Egyptian model aided by international institutions such as the World Bank and the IMF, but Egyptian at its core.
4. From the outset, the Government of Egypt involved the private sector at large. When the IMF recommended Egypt's currency devaluation, all sectors of Egypt's economy stood against the step and were proven right with no reservation.
5. Finally, and most importantly, the process is irrevocable and sustainable.

Ladies and Gentlemen,

Egypt's strategy of gradualism towards liberalisation and reform with a strong social safety net in place has proven to be the correct course and evidence supports it. Recognition in published reports by world-renowned institutions, such as Merrill Lynch, HSBC, and Flemings favours the process.

But even with all this, we cannot rest the case. More achievements have to be done to prepare Egypt for the 21st Century and its challenges.

- Egypt lives in 5% of its geographical area and its New Valley project aims at changing that to over 25%.
- Egypt is continuing its privatisation mass program and moving towards including utilities to cover water, telecommunication, ports, roads, power, and virtually every other sector.
- Egypt's capital market needs strengthening to ensure its continued growth .
- Another challenge is legislative reform including the creation of Institutes that facilitate the transition and enhance it, as well as attempting the major challenge of civil service reform.
- Preparing Egypt's educational system for the 21st Century is a challenge of remarkable proportion; a national program towards that end should seek first hand assistance and guidance from the German genuine experience.
- Magnifying Egypt's competitive advantages in information technology, industry and tourism, is also exceptionally important.
- Greater liberalisation is also a target, achieved through the regulation and the safeguard of consumer interests.

Ladies and Gentlemen,

With a universal recognition of the clear success of these reforms, President Mubarak's message to the world in the Cairo Economic Conference in November 1996, and to the World Economic Forum in February 1997, leaves no doubt where Egypt is heading.

The message is: “Egypt has joined the global economy and competes. Moreover, it shall play by its rules and share in the prosperity of the new world.” This is the opportunity and this is the challenge.

At the Regional level :

Egypt’s vision of regional co-operation is shaped by the yearning of the people of the region for substantial economic and social development leading them to a better life and a better future. Endowed by a central geographical location, an opulent historical and cultural legacy and abundant natural and human resources, Egypt believes the MENA region deserves a better position in the international economy. To this end, a just, comprehensive and lasting peace should be the base for socio-economic development, which will also reduce the degree of risk perceived by private initiative and investments, which have become the real locomotives of economic growth in the whole world.

Egypt is pursuing her vision of regional co-operation through three concentric circles; Arab-Arab co-operation, regional co-operation in the Middle East, and Euro-Mediterranean co-operation.

1 - Egyptian /Arab Co-operation:

This co-operation dates back to the early fifties and is considered to be one of the earliest attempts of regional integration in the world. However, any assessment of this long-life span will reveal the modesty of its achievements. For example intra-regional trade among Arab Countries still accounts for only 10% of their trade (excluding petroleum), up from 7% in 1980 (EU 58%, East Asia 37.4%, North America 36.3%). Nevertheless, today we have different variables that give this co-operation a different dimension.

The challenges of globalisation, the increasing role of regional integration, the opportunities opened up by the advent of peace, the imperatives and implications of national economic reform policies, and the emerging strong role of the private sector have all led the

Arab Countries to review their economic co-operation with a new sense of realism and pragmatism at the political level, based on the clear economic imperative of this co-operation.

Realising the clear political and economic imperatives of this co-operation, Egypt hosted in June 1996 the Cairo Arab Summit, in which the Arab Countries decided to embark on the creation of an Arab Free Trade Area starting from 1/1/1998, through the gradual reduction of tariffs by equal percentages until total liberalisation is achieved by 31/12/2007. At the same time, Arab Countries are encouraged to exceed this time frame bilaterally. To this end, Egypt already signed a free trade agreement with Jordan and similar agreements are on the way with Tunisia, Morocco and Lebanon.

The larger Arab market will undoubtedly offer new and expanded opportunities for private foreign investors who can organise their activities more efficiently and profitably in the context of such a big market. As such this FTA will enhance the region's share in international investments and FDI, as well as promoting the Arab and foreign private sector's joint industrial and infra-structural cross-border projects.

2 - Regional Co-operation in the MENA region:

The region's drive for peace paved the way to rectify the economic trends of the past and to build up the potentialities of the future. Egypt since it committed herself to peace in 1979, has spared no effort to ensure that peace will eventually prevail in the region. We are confident that the acceleration of peace, therefore, will entail greater emphasis on the value of regional economic co-operation and its potential contribution to the prosperity of the region.

Egypt, has always had the basic potential of being the main supplier to the Arab Countries with teachers, doctors, engineers, lawyers, legislators, skilled and unskilled labour and farmers.

Also, Egypt has been a peace-maker and the leader in this process. When it decided for the liberation war, the entire Arab Countries joined. When it went for the peace treaty, it took the rest of the Arab Countries fifteen years to follow, but they did follow.

Without Egypt, there would have been no Gulf war to stop arrogance and invasion from prevailing in the 20th Century.

Over the past few years, in anticipation of peace, the regional parties thoroughly study the possibility of establishing an institutional framework in the form of a Development Bank in Cairo.

3 - Euro - Mediterranean Co-operation:

The evolving Euro - Mediterranean Partnership aims at the creation of one of the largest FTA's in the Globe. The involvement in such a gigantic block holds for Egypt challenges and opportunities for a full integration in the global market. It offers, inter-alia, an access to a huge and developed market, special financial and technical assistance to facilitate the transition and integration process, incentives for increased FDI and an access to advanced technologies.

At the International level :

Egypt believes that integration into the global economy and abiding by its rules involves a qualitative transformation in the performance of the economy, as well as in governing her economic relations with the world. With this perspective, Egypt established in 1994 a dynamic economic partnership with the United States. This partnership operates through a high level public and private sector dialogue on policies to promote expanded economic growth and job creation in Egypt, as well as to build mutually beneficial economic, commercial, technological and investment ties between both countries. This is only one example of a strategy to open up to the whole world.

There is no doubt that what Egypt seeks is a closer form of EU partnership, rather than mere international EU aid programs.

To conclude, I would like to bring forward to the attention of this distinguished Forum, that Egypt is now open more than ever before for all forms of foreign and multi-national partnerships.

In support of this target, Egypt has adopted last May 1997 a code of a wide set up of incentives to investments.

Last, but not least, Egypt is strongly committed to the sincere applications of WTO.

Ladies and Gentlemen,

Egypt has proven to be a determinate peace-maker who gave the lead and example to the others bearing the very expensive cost for peace. President Sadat's life was only a part of the cost.

We in Egypt believe that PEACE is our determined choice with no other alternative.

The Egyptian main characteristic performance is now more than any other time before, featuring commitment, regional co-operation, hard work and engagement in globalisation and international integration.

Thank You.



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