Executive Summary

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

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

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

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

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

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

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

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

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

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

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

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

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

1 World Bank Development Indicators database, April 2004.

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

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

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

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

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

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

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3 *CIA Factbook*, 2005.

4 See *www.populationconnection.org*.

5 Feddan is a unit of area used in countries such as Egypt and the Sudan. Its Arabic name means 'a yoke of oxen': implying the area of ground that could be tilled by them in a certain time. 1 feddan = 24 kirat = 4,200 square metres (m²).

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